NATIONAL SEMINAR
ON
CONCENTRATION OF ECONOMIC POWER AND PUBLIC POLICIES
(MAY 18 - 19, 1979)

The Indian Institute of Public Administration
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For Restricted Circulation among
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Preface

Here are reproduced some papers, articles and chapters from some books and Reports, which in our view, have some direct or indirect, but nonetheless important bearing on the theme of Concentration of Economic Power and Public Polilice in India. It is no claim of ours that we have included the most important or the most relevant works. Also, we are aware of the importance of what we could not include in the present volume. However, in view of the general paucity of works on this theme, it is hoped that the present selection will perform the role of background material stimulating discussion. It is meant for restricted circulation among the participant of the Seminar. We are extremely grateful to all those authors and publishers whose works we have drawn upon for the purpose.

Kamal Nayan Kabra

I.I.P.A.,
14th May, 1979.

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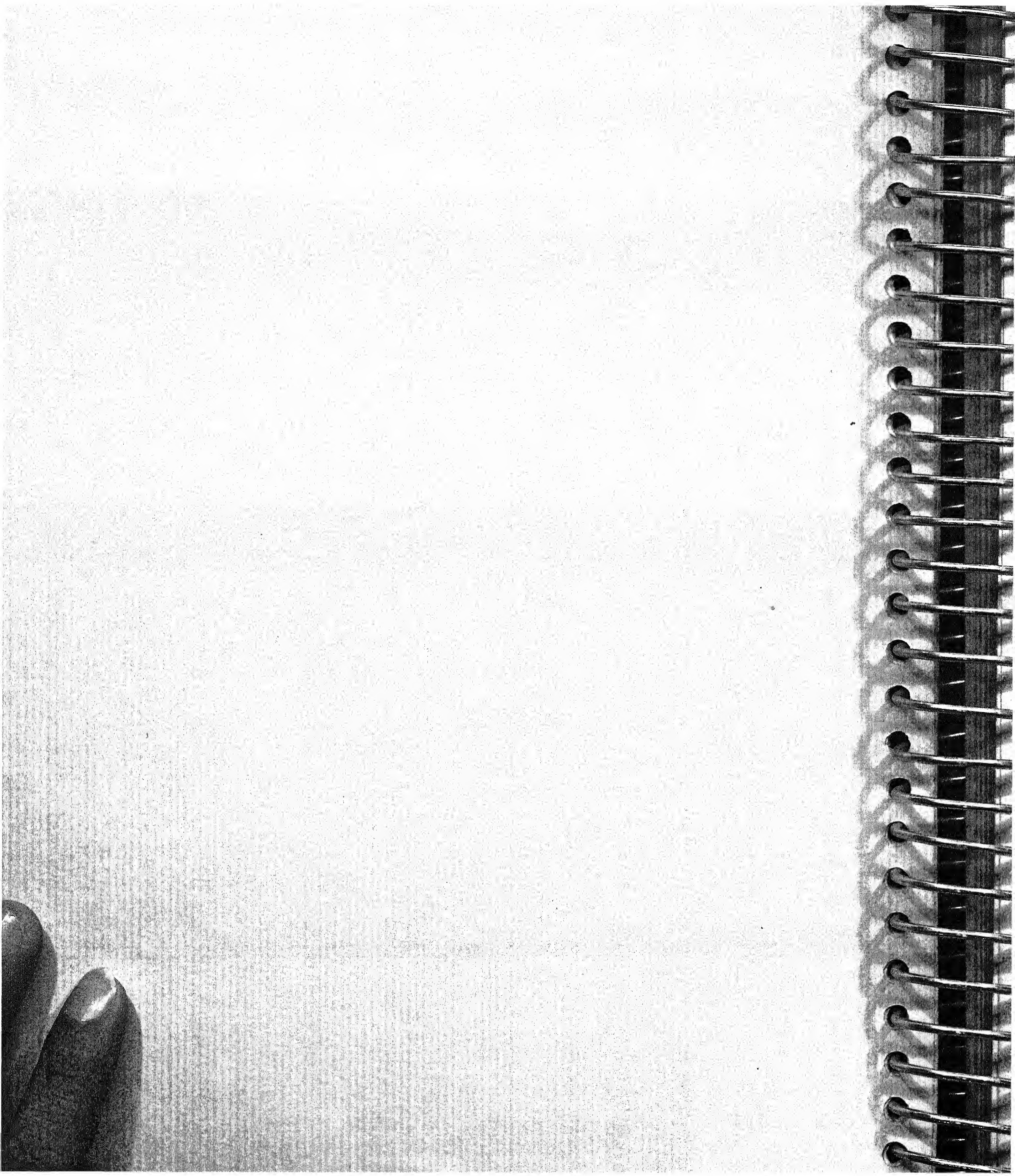
NOTE : All the Papers are separated from each other by a coloured paper.

*Will be distributed separately.



CONCENTRATION OF ECONOMIC POWER

Introduction

We were required, by our third term of reference, to ascertain the extent to which the operation of the economic system has resulted in the concentration of wealth and means of production. In a subsequent letter from the Planning Commission, it was also suggested that "the Committee might consider such data as are available for a factual study of the problems connected with financial control of industrial and economic activity". Concentration of wealth and means of production or of financial control, are only means to an end which is the concentration of economic power. We, therefore, agreed that our study should be directed to this wider phenomenon.

2. We are aware that in studying the extent to which the operation of the economic system has led to concentration, it would have been useful to have had statistical data running over the entire period of the first two Five Year Plans. Unfortunately, such data are not available, for the most part, in regard to concentration; and even when available, as in the case of income-tax and allied data, it is difficult to use them without qualification. Moreover, it appears that no trends as such could be identified in terms of either bettering or worsening of the situation in respect of the broad pattern of distribution. Under the circumstances, we have confined ourselves in the main to an analysis of the situation as it prevailed at the end of the two plan periods, with of course, due attention to the extent to which the operation of the economic system has resulted in facilitating the process and increasing the degree of concentration. Where possible however, we have also made use of data extending over the period.

Concentration: basic concepts and issues:

3. Concentration can be treated as a technical concept dealing merely with concentration ratios giving the share of the largest few firms in respect of some specific characteristics. In such a case, the measure of concentration may refer to "the share of the total gross output, net output or employment in a particular industry controlled by a given number (say three) of the largest units in that industry. 'Unit' would mean a single firm or aggregate of firms owned or controlled by a single parent company, control being defined as ownership of more than half of the capital (or voting power) of each firm".[1] The term 'concentration' could also be used in a wider sense of a small number of individuals or groups having in their control significant volumes of economic power in terms of capital or income or employment or media of communication which, though not constituting a large percentage share of the national aggregate in each case, nevertheless sets them so much higher than any other individual or group in the relevant context that it gives them a disproportionately large influence and enables them to exercise economic power not measurable statistically by the mere ratios of concentration. Apparently what the Planning Commission and the public in general have in mind is the latter rather than the former, though an analysis of concentration ratios is also relevant even from the point of view of a study of the wider aspects of concentration of economic power.

4. This concentration might exist in the form of either ownership, or management or even in more indirect forms of operational control. Though majority ownership generally

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1 "Concentration in British Industry" by R. Evely and I.M.D.Little.

implies operational control, a minority ownership can and very often is sufficient to achieve such control. Similarly the operation of the managing agency system as well as other forms of management, e.g. Secretaries, Treasurers etc. within the corporate sector might lead to considerable centralised control. So would interlocking of directors between different branches of activity or even between units within the same industry or activity when such interlocking does not follow from centralised ownership or management.

5. Economic power may be concentrated in a few hands within one particular sector such as 'industry' or 'agriculture' or within one particular group of production, e.g. 'engineering,' 'steel' or 'chemicals' or may be exercised over a number of economic activities simultaneously. Thus, for example, Tatas, one of the most prominent business groups in the country, have their main interest in steel, engineering and power, but also have interests in many other industries like cement, cotton, chemicals, vegetable oils, as well as in activities like insurance, investment and trade. Similarly, Birlas, another most important industrial group, are engaged in not only all varieties of industrial production other than steel and power but also control one of the largest banks in India and have a considerable interest in investment and trade. The study of concentration cannot, therefore, be confined to individual sectors of production or economic activity though this aspect of the study is also of importance.

Generalised forms of concentration

6. We may begin our study with the more generalised forms of concentration of economic power. We have dealt in the previous chapter with the changes that have taken place in the distribution

of income and property during the first ten years of planning and fraun attention to the inadequacy of the relevant statistical data needed for drawing firm conclusions on this subject. We have also expressed the opinion that in the main there have not taken place such changes in the distribution of income and property as would indicate any significant trends in either direction. In this chapter, we may appropriately deal with the distribution position as it prevailed at the close of the first two plan periods with a view to determining whether it reveals the existence of any degree of concentration of economic power and if so, to what extent.

7. Income tax statistics do not help in giving an idea of the overall national picture, not only because of their non-reliability due to avoidance and evasion of unknown magnitudes but also because they exclude from their purview agricultural income which accounts for half the national income as also the aggregate income of more than 70 per cent of the labour force. There are also the other statistical limitations to which we have made reference in the previous chapter. We have therefore to fall back upon two indicators of distribution one based on NSS expenditure data of the 15th round covering the period July 1959 to June 1960, and the other based on the NCAER sample surveys of urban and rural households for 1960.[2] Relevant figures are given in the following statements:

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2. subject to limitations explained in para 7 of Chapter 3.

STATEMENT(1): PERCENTAGE SHARE OF TOTAL CONSUMPTION EXPENDITURE BY FRACTILE GROUPS - NSS 15TH ROUND, JULY 1959 TO JUNE 1960.

(Percentages)

Sl. No.	fractile group	share in consumption urban	share in consumption rural
(0)	(1)	(2)	(3)
1.	0-10	3.33	3.40
2.	10-20	4.66	4.94
3.	20-30	5.67	5.82
4.	30-40	6.34	6.69
5.	40-50	7.44	7.68
6.	50-60	8.30	8.61
7.	60-70	10.21	9.93
8.	70-80	12.17	11.74
9.	80-90	15.88	14.42
10.	90-100	26.00	26.77

STATEMENT (2): PERCENTAGE SHARE OF HOUSEHOLD INCOMES IN THE AGGREGATE INCOME OF DIFFERENT PRE-TAX INCOME TENTHS, 1960.

(Percentages)

Sl. No.	fractile group	share in the aggregate income before tax urban	share in the aggregate income before tax rural
(0)	(1)	(2)	(3)
1.	0-10	1.3	0.7
2.	10-20	2.7	3.3
3.	20-30	3.6	4.5
4.	30-40	4.5	5.6
5.	40-50	5.4	6.6
6.	50-60	6.5	7.7
7.	60-70	8.1	9.5
8.	70-80	10.3	12.1
9.	80-90	15.2	16.4
10.	90-100	42.4	33.6

8. NSS data show that the top 10 per cent of the rural households accounted for 26.8 per cent of total expenditure, while the bottom 10 per cent accounted for only 3.4 per cent. NCAER figures show that the top 10 per cent of the rural households claimed 33.6 per cent of total income, while the bottom 10 per cent accounted for only 0.7 per cent. Corresponding figures given by NSS for urban areas are 26.00 per cent and 3.33 per cent respectively, while those given by NCAER are 42.4 per cent and 1.3 per cent respectively. The NCAER figures present a grimmer picture partly because they pertain to income while the NSS data relate to expenditure. The wide range of variation that one finds between the top and the bottom tenths of the population clearly reveals the existence of concentration of economic power in the country in its most generalised form. That the imposition of taxation has not made much difference to the range of variation and therefore to the presence of concentration is clearly revealed by the following statement based on NCAER data of percentage shares in the post-tax or disposable income by income tenths:

STATEMENT(3): SHARE OF HOUSEHOLD INCOMES IN AGGREGATE INCOME BY DIFFERENT POST-TAX INCOME TENTHS (URBAN ONLY), 1960.

(percentage)

Sl. No.	fractile group	share in the aggregate income after tax
(0)	(1)	(2)
1.	0-10	1.3
2.	10-20	2.8
3.	20-30	3.7
4.	30-40	4.7
5.	40-50	5.6
6.	50-60	6.7
7.	60-70	8.3
8.	70-80	10.7
9.	80-90	15.8
10.	90-100	40.4

9. The conclusion seems justified that even after ten years of planning and despite fairly heavy schemes of taxation on the upper incomes, there is a considerable measure of concentration in urban incomes. This would also hold for rural incomes, as in their case, even the burden of taxation is not heavy on the higher ranges of incomes. It must be added that to a large extent the phenomenon of economic concentration in the Indian economy is the result, at one end, of unemployment and under-employment and consequent low productivity per unit of labour, that is to say, of inadequate economic development rather than merely structural inequalities of a distributional character, and at the other end, mainly of deficiencies in tax compliance or of tax evasion and avoidance rather than of an insufficiently progressive tax system. If this analysis is correct, it would seem to call for rethinking of the overall strategy of development adopted during this period in relation to the social goals. Since we are not required by our terms of reference to consider such issues, it is not necessary to pursue the matter further.

10. The data available on the distribution of wealth indicate that there is an even more marked degree of concentration than we have found in the case of income and expenditure.[3] Thus, the distribution by size of holdings of agricultural land is extremely unequal. From the NSS data collected in the 8th round (July 1954 to March 1955) and the 16th round (July 1960 to June 1961) on land holdings in the rural sector, it appears that though there was a mild trend towards redistribution of land holdings between 1953-54 and 1959-60, there was a high degree of concentration with regard to land distribution. In 1953-54 the top one per cent of the households owned 17 per cent, the top five per cent owned 41 per cent and the top 10 per cent of households owned 58 per cent of all lands belonging

3. Also see Table (4.2) for a comparative picture within taxable limit.

to households; in 1959-60, these proportions were 16 per cent, 40 per cent and 56 per cent, respectively. The bottom 20 per cent of households did not own any land in either of these two years.

11. For owner-occupied houses in urban areas, the NCAER survey for urban India in 1960 showed that the bottom 20 per cent of households claimed a share of only 0.9 per cent in the aggregate market value of the owner-occupied houses, while the share of the top 20 per cent was 73.1 per cent, the top 10 per cent accounting for as much as 57.0 per cent.

12. As regards companies, which perhaps constitute economically the most significant form of property, no complete data are available regarding distribution by ownership of share capital. Income-tax statistics do not cover the entire shareholding population, as quite a number of shareholders have incomes below the income-tax limit (Table 4.1). A study made by the CBR for 1954-55 took into account not only assessees who received dividends but also refundees; and it showed that of the estimated number of 101,033 shareholders - itself an infinitesimal part of the total population, 1.4 per cent accounted for 31.5 per cent of the dividend income, while 50.3 per cent could claim only 10.8 per cent of that income. A more detailed study carried out by the Reserve Bank of India in March 1960 covered 70 companies with paid-up capital of Rs. 212 crores with a market value of Rs. 417 crores; and it showed that 0.5 per cent of the total number of shareholders (without making allowance for duplication in the sense of some of some holders having shares in different companies, but including company shareholders) had holdings of Rs. 50,000 and above, accounting for 56.5 per cent of the total value of the shares covered by the enquiry. If allowance is made for multiple shareholding by individuals and also for the fact that some of the holdings are by companies, there can be no doubt

there is a high degree of concentration in the wealth represented by shares of joint-stock companies. This is also shown by the income-tax statistics on dividend income by ranges according to which 1.5 per cent of dividend receivers accounted for 34.6 per cent of total dividend income assessed to tax in 1959-60.

13. The data given above do not indicate any trends in concentration. What they do reveal, however, is the existence at the end of ten years of planning of a considerable degree of inequality in the distribution of economic assets and consequent concentration of economic power in the hands of a numerically small section of the population. It is true that a considerable measure of inequality in the distribution of income and wealth also exists in several other developed and developing countries. There also, it is causing concern. But in the context of the Indian situation it should be of even greater concern, as ours is a planned economy and we are pledged to follow policies that will further the twin objectives of lessening economic inequalities and promoting economic growth. To the extent therefore that there has been no appreciable reduction in the concentration in economic power during the last ten years, this fact may be taken, as we have already stated earlier, as some evidence of the inadequacy of our current strategy of economic development in one of its important aspects.

Concentration in private corporate sector

14. We may now pass on the consider the problem of distributive inequality and concentration of economic power in the significant part of the economy formed by the private corporate industrial sector which has a crucial place in planned development under Indian conditions. Industrial

production in the private sector accounts for 16 per cent of the net national product and about a half of this production is organised in corporate form. But the corporate sector is the most dynamic element of our developing economy and must claim special attention in any study of concentration of economic power. A study of joint-stock companies in India shows that while the number of companies is large, a small number of companies accounts for a large portion of their paid-up capital. Thus, in 1960-61, the total number of companies having a paid-up capital of less than Rs. 5 lakhs each constituted 86 per cent of the total number of companies at work during that year, but their share of the total paid-up capital of Rs. 50 lakhs and above constituted only 1.6 per cent of the total number of companies but claimed 53 per cent of the total paid-up capital (Table 4.3). Though the increasing size of companies is by itself not necessarily an index of growing concentration in ownership of companies - and there is some evidence of an increasing dispersal of ownership as such - the phenomenon is conducive to greater concentration of control and economic power and as we shall presently see, it has facilitated the process.

15. It is also evident that the working of the planned economy has contributed to this growth of big companies in Indian industry. The growth of the private sector in industry and especially of the big companies has been facilitated by the financial assistance rendered by public institutions like the Industrial Finance Corporation(IFC), the National Industrial Development Corporation (NIDC) etc. Thus, as on 30th June, 1963, loans had been approved by the IFC for a total sum of Rs. 127.7 crores. The number of concerns[4] to which loans

4. These concerns include cooperatives. IFC sanctioned loans of less than Rs. 50 lakhs each to 12 cooperatives, the total amounting to Rs. 4.6 crores; and of more than Rs. 50 lakhs each to 42 cooperatives the aggregate coming to Rs. 32.2 crores. Cooperatives did not receive any loan exceeding Rs. 1 crore or below Rs. 10 lakhs.

had been sanctioned was 244: 143 of these concerns were given loans of less than Rs. 50 lakhs each, the total amounting to Rs. 32.7 crores, while 101 concerns were given loans exceeding Rs. 50 lakhs, the total being Rs. 94.9 crores. Loans exceeding Rs. 1 crore each were given to 22 concerns and accounted for Rs. 34.8 crores, while loans below Rs. 10 lakhs were given to 32 concerns, the total amounting to Rs. 1.8 crores.[5] Lending by NIDC which totalled Rs. 3 crores up to March 1963 would also generally be to bigger companies.

16. Similar details are not available for the loans sanctioned by the State Financial Corporations, which totalled Rs. 49.8 crores upto 31st March, 1962. However, loans given by the State Financial Corporations all fell in the category below Rs. 10 lakhs and would have generally assisted medium and small industry. The amount of loans which could be classified as having been made to small industry in terms of a unit with

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5. This analysis of the loan assistance given by the IFC is with reference to total assistance given to the concerns, many of which received more than one loan in course of time; this is more relevant from our point of view than the analysis of loan assistance by applications or individual loans sanctioned. The latter is of interest, however, as indicating the process by which the loan assistance given by the IFC tends to become more concentrated with time. Thus, as on 30 June 1963, in respect of the total amount of loans extended or Rs. 127.7 crores, the number of individual loans for amounts not exceeding Rs. 50 lakhs was 350 (60 being to cooperatives) and the total of such loans amounted to Rs. 68.7 crores (of which Rs. 14.5 crores was to cooperatives) while only 69 loans for amount in excess of Rs. 50 lakhs had been given for a total amount of Rs. 58.9 crores (including Rs. 22.3 crores for cooperative societies). As the number of concerns receiving more than one loan increases, the proportion of concerns in the lower size category of loan recipients declines and that in the higher size category increases. The fact, therefore, remains that the loan assistance given by the IFC has assisted the growth of bigger companies more than that of the smaller companies. Figures relating to lending to cooperatives have been made available by the IFC.

fixed assets (including capitalised value of rental premises) of equal to or less than Rs. 5 lakhs was somewhat over a quarter of the total loans, the rest being given presumably to medium-small and medium-sized enterprises.[6]

17. One noteworthy feature of some of these loans has been pointed out by the Third Annual Report on the Working and Administration of the Companies Act of 1956, which we quote below in view of its relevance to the subject of concentration of economic power:-

> "Cases have come to notice where companies with large reserves have invested heavy amounts in shares of other companies in the same group while borrowing heavily from the Government and quasi-Government institutions. While these companies appeared to be financially sound and could have apparently met their needs for expansion or modernisation of their plant and machinery by converting their investments into cash, they have preferred to borrow from outside bodies. Presumably companies have, on balance, decided to keep their voting power intact in the companies in which shares were held by them or possibly, in some marginal cases, the realisation of the investments might have resulted in losses. In some cases, however, the investments in industrial holdings have been found to be of the order of half a crore of rupees matched by an over-draft from State Bank of India for a like amount".

18. Government policy during the plan period has been responsible in other ways as well for the growth of the private sector and in the process specially of big companies. In addition to affording a protected market and the necessary overhead facilities and maintaining a budget policy with a mildly inflationary situation favourable to industry, the Government have been promoting the growth of private industry by extensive tax incentives. Under Section 150 of the Income-Tax Act, new ventures are given a tax holiday for five years

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6. Para nos. 15 and 16 are based on information supplied by the Reserve Bank of India.

and profits upto 6 per cent of the capital employed are exempted from both income-tax and super-tax. Under Section 10(2)(vi) of the Act, new companies set up after 31st March, 1954 are allowed to deduct 25 per cent of the actual investment towards depreciation of plant and machinery.[7] Under Section 56-A of the Income-Tax Act, dividends received from companies engaged in certain specified industries are exempted from super-tax; for inter-corporate investment in these industries, this concession together with the provision for income-tax credit which already existed, meant that such dividens were totally exempted from taxes. There is no indication of the total tax rebate given to industries in this manner but the amount should be quite considerable. While these tax concessions and rebates promoted a climate favourable to investment by both small and big enterprises, it is evident that the latter were in a better position to take advantage of the same.

19. In commenting upon the growth of capital formation in the corporate sector, it is important to indicate the extent to which this has been financed by funds other than those obtained from shareholders either by way of new issues or bonus issues or by ploughed-back profits. The overall pattern of sources of finance of capital raised by non-government companies is indicated by the records of the Controller of Capital Issues where the distribution of consents and details of subscribed and paid-up capital by types of issues (viz. initial, further, bonus, debenture and loan) are available for each of the industries. Such data over the period 1955-60 have been collected and analysed by the CSO[8] separately for

7. This development rebate was reduced to 20 per cent by an amendment to the Act passed in 1961.

8. Capital Issues in the government and non-government companies', 1955-1960 (mimeographed) CSO.

government and non-government companies. Total long-term capital raised during 1955-60 by non-government companies amounted to Rs. 468 crores. The share of capital raised through debentures was Rs. 44.7 crores (9.5 per cent) while that through loans (from World Bank, Governments, LIC, IFC and SFCs) was Rs. 160.7 crores (34.4 per cent). Total increase in debt thus formed about 44 per cent of total long-term capital raised, while capital raised through issue of shares formed 56 per cent. The following figures give the general pattern of financing of industrial expansion:

STATEMENT(4): CAPITAL RAISED BY NON-GOVERNMENT COMPANIES DURING 1955-60.

	(Rs. crores)	(Percentage of total)
Total capital raised	467.5	100.0
(1) of which increase in debt (a + b)	205.4	43.9
(a) debentures	44.7	9.5
(b) loans[1]	160.7	34.4
(2) of which share capital (a+b)	262.1	56.1
(a) bonus	33.5	7.2
(b) ordinary and preference shares	228.6	48.9

1 include (i) loans from the World Bank
(ii) loans from the Central and State Govts. against the creation of company's fixed or liquid assets.
(iii) advances from the LIC on mortgaged property, and
(iv) loans granted by others (other than banks).

20. Bank credit has also played an impressive role in financing the growth of industry during the last seven or eight years. The Reserve Bank's studies of company balance sheets have shown that the proportion of bank borrowings to total sources of funds for all public limited companies was 14 per cent during 1959-60. For small companies this was 20 per cent, while for medium and large companies it was only 13 per cent. The absolute figures for the latter were, of course, very much larger.

21. The dependence of private industry on banks for financing its expansion is confirmed by a purpose-wise analysis of advances by scheduled banks (Tables 4.4 and 4.5). Thus, industry which accounted for 36 per cent of scheduled bank advances at the end of 1951, increased its share to 52 per cent by the end of 1961 and this from a total that was nearly double that in 1951. Of the total increase in bank loans of Rs. 722 crores between 1951 and 1961, Rs. 477 crores or 66 per cent was accounted for by industry, over half of the increase being shared by cotton textiles, sugar, engineering, iron and steel, and cement. The Reserve Bank of India has recently conducted a survey for ascertaining the extent of finance provided by banks in the form of 'term credit' to industries as at the end of April, 1962. The results of the survey revealed that the total 'term credit' outstanding amounted to Rs. 103.6 crores and formed 7.7 per cent of the total credit of these banks and 15.8 per cent of their industrial advances. Approximately, one-half of the 'term credit' granted was in the form of medium-term loans with a maturity of over one year; the other half represented rolled-over credit consisting mainly of overdrafts and cash credits with a specific understanding that the credit would be renewed.

22. Analysis of the bank credit thus made increasingly available for the financing of industrial expansion during the last few years shows that the main beneficiaries have been the big and medium enterprises. Financial assistance provided by the commercial banks to small scale industries (with assets less than Rs. 5 lakhs) was insignificant, amounting to only Rs. 28 crores or barely 5 per cent of their total advances to industries in 1960. The meagre absolute amount of credit extended to small industry is, however, to be considered against the very smallness of this sector; as Table (4.6) indicates, the paid-up capital of small public limited companies, below Rs. 5 lakhs each, formed barely 3 per cent of that of all companies. At the same time, there is no doubt that part of the explanation for the practically insignificant share of small industries in bank advances is the lacuna in the structure in industrial financing in terms of which the credit requirements of small industry in the unorganised sector were left to be met by non-institutional sources. It is only in the last few years that some attention has been given to this problem and the share of small industry[9] in bank advances has increased, fairly rapidly, from Rs. 20.7 crores in the first half of 1960 to Rs. 39.4 crores by the end of 1962. This has been partly stimulated by the guarantee scheme for small loans operated since July 1960 by the Reserve Bank as an agent of the Government; the total amount of guarantees issued under the scheme amounted to Rs. 18.8 crores in respect of 5098 applications by 30th June, 1963. We have still to go a long way however, before reaching the stage when bank advances to small industry can be regarded as satisfactory either in terms of

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9. This is defined to include units with fixed assets, including capitalised value of rental premises, of Rs. 5 lakhs or below unlike the definition adopted by the Bank's earlier survey for 1960 based on total assets less than Rs. 5 lakhs.

their absolute requirements (including their large non-corporate sector) or in comparison with the position of the big and medium enterprises.

23. In the light of the above general picture, it is interesting also to look at the sources of finance for the top 'Complexes' analysed by R.K.Hazari, in terms both of changes over the period 1951-58 and the share of loans in the total liabilities for these Complexes.[10] These are presented in Tables (4.7), (4.8) and (4.9) in the appendix. Thus, the increase during the period in loans was 34.8 per cent for the ten Complexes and 35.8 per cent for the four top-most Complexes. In terms of absolute figures, the increase in loans amounted to as much as Rs. 154 crores for the four top-most Complexes out of a total increase in gross liabilities of companies controlled by the Complexes of Rs. 430.75 crores. The share of loans as a proportion of total liabilities also increased substantially from 19 per cent in 1951 to 30 per cent in 1958 for the ten Complexes and within the Complexes this share which for one group was already high at 31.8 per cent in 1951 increased to as much as 40.3 per cent in 1958.

24. The following statement brings out the considerable increase in the role of borrowing (loans) in the financing structure of companies and the relatively greater increase in reliance on borrowed funds by the twenty Complexes covered in Dr. Hazari's study as compared to the 1001 companies in the Reserve Bank study:

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10. Ownership and control of companies - 1951 and 1958 with special reference to changes in concentration of economic power' by R.K.Hazari.

STATEMENT(5): STRUCTURE OF COMBINED BALANCE SHEET OF PUBLIC COMPANIES

(Percentages)

Sl. no.	Liabilities	1951		1958	
		20 complexes[1]	R.B.I. sample	20 complexes[1]	R.B.I. sample
0	1	2	3	4	5
1.	share capital	35	35	28	29
2.	reserves	22	19	16	18
3.	loans	20	21	30	28
4.	other liabilities	23	25	26	25

1 including banking and insurance but including finance companies.

SOURCE: Hazari R.K."The Structure of the Corporate Private Sector", Bombay, 1963, p.257.

25. Moreover, the commercial banks also increase their own holdings of share in joint-stock companies, as the size of the companies increases. The Life Insurance Corporation (LIC) which is a nationalised concern, also supports big business in private industry by its holdings of stock exchange securities, its total investments in this sector amounting to Rs. 92 crores as on 31 December, 1960.[11]" The large companies and bigger enterprises have an easier access to the capital market, and banks, life insurance companies and trusts besides individuals have a preference for investing in shares of large companies. Thus, the operation of the economic system, with its criteria of credit-worthiness and security for lending and investment, tends to support the large and established enterprise against the small and struggling

11. Annual Report of the LIC for the year 1960.

entrepreneur. There is, however, a compensatory element to the extent that the procedure followed in supporting the larger enterprises enables a more continuous scrutiny on their operations by the lending interests. In any case, if the pattern of growth in a mixed economy has to be a simultaneous development of both large scale and small scale enterprises, the regulatory measures should not take the form of withholding finance to the larger units. It is necessary, however, to eliminate unhealthy competition between large and small enterprises, and ensure easy flow of finance to the latter.

26. In must be pointed out, however, that the growth of big business as such, though indicating the presence of economic concentration does not necessarily mean the deliberate adoption of an anti-social policy. There is such a thing as the economy of scale which works in favour of big business, on purely economic grounds; and economic considerations are certainly relevant especially in the context of our scarce resources and the imperative need for our making the most economic utilisation of these resources. In many industries, the size of the domestic market is small in relation to the size of the plant at which maximum average costs begin to obtain; and any attempt to reduce the degree of concentration by breaking down economic-size units into a large number of uneconomic-size plants would only lead to economic waste. At the same time, there is no doubt that localised concentration of industry, even if unavoidable on economic grounds, must necessarily result in the accrual and possible exercise of monopolistic power. What is needed in such a case is not the break-up of large units as the adoption of a policy of regulation, continuous scrutiny and possibly, nationalisation which will help to prevent the emergence of anti-social

consequences from the otherwise economically justifiable localised concentration in the form of big units in one industry or another.

27. As localised industrial concentration is an important aspect of concentration of economic power, it is necessary to examine the extent to which such concentration has emerged in Indian industry at the end of ten years of planned economic development.

The following statement gives relevant data on producer concentration in selected industries:-

STATEMENT(6): PRODUCER CONCENTRATION IN SELECTED INDUSTRIES:

sl. no:	industry	year	percentage share of top-most unit/group in total production/capacity	percentage share of top-few units/groups in total production/capacity	no. of units/groups under column(4)
(0)	(1)	(2)	(3)	(4)	(5)
1.	finished steel	1958	63.70	93.36	2 groups
2.	pig iron	1958	54.63	90.08	2 groups
3.	electric lamps	1960	40.00	88.70	14 units
4.	sewing machines	1960	88.00	88.00	1 unit
5.	soda ash	1958	52.25	84.68	2 groups
6.	electric fans	1961	51.00	82.00	4 units
7.	paper and paper board	1958	23.50	77.90	5 groups with 8 units
8.	bicycles	1959	20.20	72.72	4 units
9.	cement	1960	45.00	71.90	3 groups
10.	soap	1957	30.75	69.11	4 groups with 8 units
11.	superphosphate	1958	14.76	53.04	5 groups
12.	hydrogenated oil	1958	14.01	47.09	6 units
13.	paints and varnishes	1957	11.40	45.90	6 units
14.	ceramics	1957	17.29	39.72	4 groups with 6 units
15.	jute textiles[1]	1958	12.29	37.61	4 groups
16.	matches	1960	60.00	60.00	1 group with 5 units

1 percentage of looms installed

0	1	2	3	4	5
17.	caustic soda	1958	14.76	28.51	2 groups
18.	coal	1958	11.09	24.70	3 groups
19.	sulphuric acid	1958	16.89	23.72	2 groups
20.	cotton textiles[1]	1958	4.10	11.49	3 groups
21.	sugar	1958-59	2.36	4.56	2 units

SOURCE: 'A note on industrial concentration' by NCAER, April 1962 (mimeographed).

28. It will be seen from the above statement that in the case of 12 out of the 21 industries listed above, the top units claimed a share of more than 50 per cent of production. In 4 of these cases, one unit claimed more than 50 per cent of production. It is true that in the case of steel and pig iron, there is now substantial production in the public sector, which reduces to a significant extent the share of the top units as also of the top unit in production. Also, the monopoly or semi-monopoly position enjoyed by a few concerns earlier has been considerably reduced as a result of a steady expansion of the industrial sector during the last decade or so. Thus, for example, the ACC in 1951 controlled 64 per cent of the total output of cement; by 1960, its share had declined to 39 per cent, and is expected to decline further to 25 per cent by 1965-66. In match industry, WIMCO was more or less the sole producer of matches in 1951, as a result of differential excise and encouragement of A, B, C and D class of units, the share of WIMCO in total output of match industry has been reduced to 60 per cent by 1960. The share of Titaghur Paper in the total output of paper declined from 25 per cent in 1951 to 15 per cent in 1960. The Metal Box Company in 1951 enjoyed almost a monopoly in the matter of containers; in 1960 its share has been reduced to 20 per cent. Hind Cycles accounted for 90 per cent of the output of bicycles in 1951; its share

in 1960 declined to about 15 per cent. Soap and vanaspati, electric cable manufacturing, aluminium industries, soda ash and other chemicals and several other areas of industry furnish instances of a declining trend in localised industrial concentration with new entrants in various fields of industry. An appreciable measure of such concentration in the private industrial sector, however, still remains. Even in the case of pig iron and finished steel, the fact of concentration remains as far as the private sector is concerned.[12]

29. How far the position revealed by this study has justification in terms of economies of scale and what policy measures are required to safeguard the public interest are questions which need detailed study in the case of each industry; what agency should undertake this task, whether departmental or otherwise, is a matter for consideration by Government.

30. More important than the existence of localised industrial concentration - for which perhaps there could be found some justification in terms of the economies of scale - is the more generalised concentration of economic power to which reference has been made earlier in this chapter. In the Indian context, it is the concentration of control in the industrial sector as a whole rather than in any one or other particular industry that presents the more menacing aspect of concentration of economic power. It has been pointed out already that shares in joint-stock companies are held by an extremely small percentage of the population and that this represents a concentration of economic power that is significant enough to command attention. But more important than ownership is operational control. The normal behaviour of the large majority of shareholders whose individual holdings are quite small, does not indicate on their part any real interest in exercising the control that goes with ownership; and the growing importance of

12. Para No.28 is based on information supplied by the Reserve Bank of India.

impersonal holders like banks, trusts, companies and the like has increasingly tended to divorce individual ownership from control. As it is control which is significant from the point of view of economic power, a study has to be made of concentration of control by selected business groups within the corporate sector.

31. It is extremely difficult to obtain light on the concentration of control in the corporate sector without a full and detailed inqurire into the operations of individual companies such as only a full-time agency with powers to call for books and examine accounts could undertake. In the absence of such an inquiry, one has to fall back upon such evidence as can be gathered by an analysis of the composition of Boards of Directors and their interlocking, the number and resources of companies operated by managing agencies, inter-corporate investments and subsidiary companies, and such identification as one can make from indirect data of the presence of units of control sprawling over companies within the same industry and over many industries. We have been assisted in our work by a study undertaken by Dr. R.K.Hazari of the structure of the corporate private sector as also by working papers prepared by the Central Statistical Organisation and by the Reserve Bank of India. While the data either collected or used by us for determining the concentration of economic power in the private corporate sector through concentration of control is by no means as complete as we would have liked, it enables us to formulate some considered views on the subject.

32. Dr. Hazari's study is particularly notable for the light that it throws on the subject of concentration of control in the structure of the private corporate sector. He has attempted to identify groups in the corporate sector which exercise effective control over corporate decisions, even though they may have no separate legally-identifiable existence.

A corporate group of this kind or a controlling interest is defined as consisting of units which are subject to the decision-making power of a common authority. It takes policy decision on prices, profits, investments, production, purchases and sales on behalf of a number of companies and determines responses to particular economic and political developments. It functions as a single organisation, though each of the companies it controls is a separate legal entity apparently independent of the others with which it is linked by this Controlling Interest. It is not necessary for the Controlling Interest, for the purpose of acquiring such control, to own the majority of shares in every company in the group. By a process of inter-corporate investment it is possible for it to acquire control over a number of companies with comparatively little investment; in the simplest of cases, a Controlling Interest which owns the majority of shares in a comparatively small concern A may gain control over the affairs of a larger concern B in which A holds the majority of shares, a second still larger concern C in which B holds the majority of shares and so on; even in the original concern A, the Controlling Interest's investment may be partly financed by borrowings from banks on the security of that investment itself. The picture could be made complicated by spreading the investment of each company among several companies of the group and by changing the pattern of investments over time. The control acquired by inter-corporate investment is supplemented by powers obtained under managing agency agreements and by the buying and selling of shares by Investment Companies belonging to the group.

33. The study divides the concerns subject to the decision-making authority of a single Controlling Interest into Inner Circle concerns and Outer Circle concerns. The Inner Circle constitutes the group proper and consists of sole control and

majority companies, while the Outer Circle consists of fifty-fifty, minority, and under-management companies in which the decision-making authority of the group has a material influence but not the controlling vote. The two Circles together are referred to as the Complex.

34. Twenty leading groups have been selected for study on the basis of various criteria to yield a cross-section of the corporate private sector. Among the criteria used are not only size of physical assets, but also age, occupation, corporate structure and pattern of financing, distribution of ownership, relative size of controlling blocks, and techniques of control. Caste and provincial origin have also been pressed into service in making the selection. Altogether they present a fair picture of the corporate sector in respect of concentration of economic power. Though the Complex is brought in to give a comprehensive idea of the importance of the groups in the total corporate private sector, measurement of concentration is based primarily upon the size of the Inner Circle. Indeed, as Dr. Hazari observes: "The presence of control over the disposition of resources, in terms of which economic power has been defined, ends at the boundaries of the group, i.e. the Inner Circle ... To some extent, the interests even overlap between the groups studied. Consequently, the measurement of concentration has to be based primarily upon the size of each Inner Circle.[13] The study covers the period 1951-58, and gives details for both the years 1951 and 1958.

35. The twenty groups studied have an interest of one kind or other in 983 companies with a share capital of Rs. 236 crores in 1951 and 1073 companies with a share capital of Rs. 352 crores in 1958 (excluding government companies). These companies accounted for 29.2 and 32.4 per cent of the share

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13. Hazari, R.K. "The structure of the corporate private sector", Bombay, 1963, p.13.

capital of non-government companies in 1951 and 1958 respectively. The statements below give details of share capital and physical assets for these twenty groups, as also for the thirteen largest amongst them. Details for each of these twenty groups are given in Tables (4.10), (4.11), (4.12) and (4.13) in the appendix.

STATEMENT(7): SHARE CAPITAL AND PHYSICAL ASSETS OF 20 GROUPS (PUBLIC COMPANIES ONLY)

(Rs. crores)

sl. no.	circle	share capital 1951	share capital 1958	net fixed assets 1951	net fixed assets 1958
1.	inner	165.2	254.6	139.0	404.1
2.	outer	65.0	112.4	58.5	153.9
3.	complexes (gross)	230.2	267.0	197.5	558.0
4.	less overlap	27.5	56.7	22.0	79.2
5.	complexes(net)	202.7	310.3	175.5	478.8
6.	all non-govt. public companies	591.0	765.0	464.0	1200.0

sl. no.	circle	net capital stock 1951	net capital stock 1958	gross capital stock 1951	gross capital stock 1958
1.	inner	258.1	636.8	375.8	862.2
2.	outer	98.0	244.4	141.3	337.2
3.	complexes (gross)	356.0	881.2	517.1	1199.4
4.	less overlap	38.6	121.8	54.5	165.6
5.	complexes(net)	317.5	759.4	462.6	1033.8
6.	all non-govt. public companies	976.0	1956.0	1396.0	2675.0

STATEMENT(8): SHARE OF THE TWENTY GROUPS IN THE SHARE CAPITAL AND PHYSICAL ASSETS OF ALL NON-GOVT. PUBLIC COMPANIES

(Percentage)

sl. No.	groups	share capital 1951	share capital 1958	net fixed assets 1951	net fixed assets 1958	net capital stock 1951	net capital stock 1958	gross capital stock 1951	gross capital stock 1958
(0)	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1.	20 groups								
2.	inner	27.95	33.28	29.95	33.67	26.44	32.56	26.92	32.33
3.	complex(gross)	38.97	47.96	42.56	46.50	36.48	45.05	37.05	44.85
4.	complex(net)	34.30	40.56	37.81	39.90	32.53	38.83	33.14	38.65
5.	13 largest groups								
6.	inner	26.78	31.67	28.64	32.40	25.25	30.89	25.78	30.52
7.	complex(gross)	33.44	40.50	36.64	40.62	31.61	38.45	32.28	38.26
8.	complex(net)	33.09	38.41	36.31	38.13	31.17	36.66	31.69	36.35
9.	all non-govt. public companies	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00

NOTE: 'Complex(gross)' figures are the simple aggregates in respect of all companies comprising the Inner and Outer Circles of each of the Complexes considered. In the process of aggregation of several Complexes, it often happens that some companies are counted more than once. 'Complex(net)' figures have been arrived at after making necessary adjustments for such double counting.

STATEMENT(9): SHARE OF THE TWENTY GROUPS IN CORPORATE PRIVATE CAPITAL (PUBLIC AND PRIVATE COMPANIES)

sl. no.	group		share capital 1951	share capital 1958	net fixed assets 1958	net capital stock 1958	gross capital stock 1958
(0)	(1)		(2)	(3)	(4)	(5)	(6)
1.	all non-govt. companies	(Rs. crores)	810.00	1086.00	1353.00	2349.00	3204.00
2.	percentage		100.00	100.00	100.00	100.00	100.00
3.	20 groups: inner	(Rs. crores)	192.01	283.54	416.17	664.90	895.62
4.	percentage		23.70	26.11	30.76	28.31	27.95
5.	complexes(gross)	(Rs. crores)	265.57	414.48	584.30	947.60	1279.74
6.	percentage		32.79	38.17	43.19	40.34	39.94
7.	complexes(net)	(Rs. crores)	236.19	352.27	501.04	813.86	1102.06
8.	percentage		29.16	32.44	37.03	34.65	34.33
9.	13 largest groups inner	(Rs. crores)	183.49	268.70	398.66	623.38	840.01
10.	percentage		22.65	24.74	29.46	26.54	26.22
11.	complexes(gross)	(Rs. crores)	228.19	349.12	508.55	795.26	1078.16
12.	percentage		28.17	32.15	37.59	33.86	33.65
13.	complexes(net)	(Rs. crores)	225.89	331.95	476.53	757.24	1023.45
14.	percentage		27.89	30.57	35.22	32.24	31.94

36. The twenty selected groups have increased their share of all corporate private capital, including both public and private companies, from 29.2 per cent to 32.4 per cent, during the eight years ending with 1958. The share capital of the companies controlled by the twenty groups in 1958 stood at Rs. 352 crores, net physical assets at Rs. 501 crores, net capital stock at Rs. 814 crores, and gross capital stock at Rs. 1102 crores. Their share of net physical assets was 37 per cent, of net capital stock 34.7 per cent and of gross capital stock 34.3 per cent. The figures reveal an impressive picture of concentration of economic power in the entire corporate private sector. The picture makes an even more massive impact if one considers the share of the largest 13 of these twenty groups. Their share of the share capital of the entire corporate private sector increased from 27.9 per cent in 1951 to 30.6 per cent in 1958. Their share of net fixed assets stood at 35.2 per cent in 1958, of net capital stock at 32.2 per cent and of gross capital stock at 31.9 per cent.

37. The picture of economic concentration that has been presented above gains added significance when one makes a further break-up of the 13 largest groups that have been dealt with. Thus ten groups had an interest of one kind or other in 876 companies with a share capital of Rs. 205 crores in 1951 and 929 companies with a share capital of Rs. 297 crores in 1958. They accounted for more than 25 per cent and 27 per cent of the share capital of non-government companies in 1951 and 1958 respectively. Among these ten groups, the top four showed a still higher degree of concentration, the companies controlled by these Complexes accounting for a share capital of Rs. 147 crores in 1951 and Rs. 225 crores in 1958 or 18.2 per cent and 20.8 per cent respectively, of the share capital of entire corporate private sector. The top-most group controlled a share

capital of Rs. 66.8 crores in 1951 and Rs. 108.2 crores in 1958 or 8.3 per cent and 10 per cent respectively of the share capital of the entire corporate private sector.

38. Measurement of changes in concentration has to take into account physical assets, but this is possible, as pointed out earlier, only for public joint-stock companies. The following statement[14] gives the percentage share of the total for all non-government public companies in share capital, net capital stock, and gross physical stock for the twenty Complexes taken together. 13 largest of these, ten largest and four top Complexes.

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14. The presentation here is in terms of Complexes(gross). Since this involves some double counting in view of the fact that one company may be shown as falling within two or more Complexes, an obvious refinement would be to present figures in respect of Complexes(net). We have preferred presentation on the simpler basis of gross Complexes because the alternative presentation would not materially change the broad tendencies noticed. A more important point relates to the exclusion of private companies from our table. This exclusion introduces a distortion because some large private companies were converted into public companies between 1951 and 1958 and as such any view of concentration restricted to public companies alone would overstate the trend in concentration to some extent. We have not attempted doing this because the variety of information available in respect of private companies is very limited and the scope of the table had to be restricted considerably in case we desired to present the table for both public and private companies.

STATEMENT (10): SHARE OF TWENTY GROUPS IN SHARE CAPITAL, NET CAPITAL STOCK AND GROSS PHYSICAL STOCK OF ALL NON-GOVERNMENT PUBLIC COMPANIES (PUBLIC COMPANIES ONLY).

(Percentage)

Sl. No.	groups	share capital		net capital stock		gross capital stock		difference in percentage share between 1951 and 1958		
		1951	1958	1951	1958	1951		share capital	net capital stock	gross capital stock
(0)	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
1.	total non-govt. com.	100.00	100.00	100.00	100.00	100.00	100.00			
2.	20 complexes (gross)	38.97	47.96	36.48	45.05	37.05	44.85	8.99	8.57	7.80
3.	13 complexes (gross)	33.44	40.50	31.61	38.45	32.28	38.26	7.06	6.84	5.98
4.	10 complexes (gross)	29.35	34.53	26.99	32.62	27.21	31,83	5.18	5.63	4.62
5.	4 complexes (gross)	22.13	26.75	20.55	26.60	21.20	25.20	4.62	6.05	4.00
6.	1 complexes (gross)	9.35	12.29	9.60	14.28	10.86	13.86	2.94	4.68	3.00

The data given above make it quite clear that concentration of economic power exists to a significant extent in the public non-government corporate sector and also that it has increased significantly between 1951 and 1958.

39. We have already seen that non-government public companies financed the greater part of their substantial expansion during the Plan periods from external resources. In the case of these twenty Complexes, about 32 per cent of the gross total funds raised during the period came from loans and another 24 per cent from short-term liabilities, making a total of 56 per cent for borrowings. About 9 per cent came from reserves and 19 per cent from depreciation. Only 16 per cent came from additional share capital. If one analyses the controlling blocks - and this is feasible only for Inner Circles and not for the entire Complexes - one finds that the proportion of controlling block to Inner Circle equity share capital declined from 48 per cent in 1951 to 43 per cent in 1958, while the corresponding figures for preference shares were 23 per cent and 17 per cent respectively. Details for the twenty Complexes are given next p. as they show a great deal of variation from one another which have little to do with the size of each individual group.

40. Inter-corporate investment is the main instrument, and an increasingly important one, for the control of companies. Roughly two thirds of the controlling blocks were held by companies, with investment and industrial companies as the principal corporate holders. Of the additional share capital raised between 1951 and 1958 by Inner Circle companies, the controlling interest contributed only 37 per cent. About 83 per cent of this contribution came from companies mainly investment and industrial, 12 per cent from trusts, and only 5 per cent from individuals. The individuals who constitute the ultimate Controlling Interests provided only Rs. 1 crore out of the Rs. 38 crores contributed by individuals in general towards the expansion of the total share capital of the Inner Circle companies during this period. Dr. Hazari compares

STATEMENT(11): CONTROLLING BLOCKS IN PUBLIC COMPANIES OF TWENTY INNER CIRCLES

(Percentages of share capital)

sl. no.	group	ordinary 1951	ordinary 1958	preference 1951	preference 1958
(0)	(1)	(2)	(3)	(4)	(5)
1.	Tata	19.5	18.0	4.5	2.2
2.	Birla	61.0	61.1	55.4	28.0
3.	Martin Burn	25.9	23.7	7.4	3.1
4.	Dalmia-Sahu-Jain	65.2	54.8	36.3	24.2
5.	Bird Heilger	34.7	40.5	10.6	8.2
6.	Andrew Yule	43.3	45.7	43.0	43.1
7.	Ba-ngur	79.8	68.8	46.5	25.4
8.	Thapar	57.6	61.1	11.8	23.7
9.	J.K.	72.8	74.7	46.0	36.4
10.	Shri Ram	46.3	43.9	58.2	26.9
11.	Shapoorji	72.3	35.5 [1]	-	99.2
12.	Khatau	67.2	68.6	16.4	17.7
13.	Walchand	69.8	67.0	17.1	6.3
14.	Mafatlal	68.5	69.5	2.7	7.4
15.	Kasturbhai	23.4	20.1	36.2	34.3
16.	Seshasayee	8.7	6.1	4.9	2.7
17.	Ramakrishna	26.5	24.4	18.3	11.9
18.	Indra Singh	62.6	40.6	-	41.0
19.	Mahindra	8.0	37.8 [2]	22.5	5.3
20.	Kirloskar	27.9	27.9	-	1.7
21.	Total	48.0	43.1	22.7	17.3

1 Decline due to acquisition of Brady Group in 1958.

2 Increase mainly due to the conversion of the principal company from private to public.

the technique of holding controlling investments to a chain breeding process.

He observes:

> "The controlling families in most cases make some relatively small investments in a principal company or companies which initiate a breeding process - in some groups an inbreeding process - that takes care of nearly all subsequent controlling investments of significance, without calling forth further substantial investments from the families. All Complexes except Martin Burn, Shri Ram, Kasturbhai, Seshasayee and Kirloskar, have a large number of subsidiaries and joint subsidiaries. In 1958 the Tata Complex had 73 subsidiaries and joint subsidiaries, Birla had 105, Dalmia-Sahu-Jain 30, Bird Heilger 44, Andrew Yule 20, Bangur 47, Thapar 31, J.K. 27, Shapoorji 15, Khatau 14, Walchand 16, and Mafatlal 13. Even among the smaller groups Ramakrishna had 3, Indra Singh 4 and Mahindra 5 subsidiaries and joint subsidiaries. In the aggregate, net of multiple counting, there were 163 subsidiaries and 266 joint subsidiaries out of the 1079 sample companies in 1958. In most of the remaining companies, also, inter-corporate investment played a key role but individuals and trusts too were important holders".

Company Law Administration does attempt to control inter-corporate investments but within somewhat restricted limits; whether the Administration could deal more effectively with such investments with suitable modifications in the existing laws is a question of policy which has to be left to the appropriate authorities.

41. We have not been able to assess whether and how far the undoubtedly larger area of concentration in industry was balanced to any extent by a dilution of the intensity of control associated with a decline in the ratio of share capital of the controlled sector owned by the Controlling Interest. Indeed, the procedures and processes of decision-making in the groups, and their significance for concentration of economic

power would seem to be worth some further exploration for a fuller assessment of the problem. The groups in Indian industry differ in their structure and internal organisation, ranging from the rather loose to the closely knit organisation of the patriarchal type and with varying degrees of customary or formal devolution of powers. Some regard to these factors seems necessary when making use of Dr. Hazari's ratios of concentration. These qualifications would, however, apply more to the Outer Circles and the Complexes (gross) and do not substantially affect the conclusions regarding the extent of control based on Inner Circles.

42. There can be no denying the social significance of the concentration of economic power that exists and has grown over the Plan periods in the hands of a comparatively few individuals; and it has become possible because ownership and investment of personal funds is not required for acquiring operational control over large segments of the non-governmental corporate sector. How far this concentration can claim economic justification in terms of optimum use of scarce entrepreneurial talent, to what extent the manner in which the concentration is obtained leads to anti-social consequences, what precisely its implications are in the operation of our democracy, the implementation of the constitutional directives on economic policy and on economic development, and what remedial measures are required, are all important problems that need answering. But this can be done only after a thorough and comprehensive inquiry by a full-time organisation created solely for the purpose of inquiring into the concentration of economic power in the non-governmental corporate private sector. We shall revert to this suggestion towards the end of this chapter, but it is relevant to draw attention at this stage to the recently published report

of the Commission of Inquiry on the administration of Dalmia -Jain companies, and the lessons that flow from it in regard to the possibilities of the anti-social consequences that can follow from both the attempts to build up concentration of economic power as also from an exercise of this power.

43. So far we have dealt with the concentration of economic power that rests in the hands of certain groups of Complexes who by ownership, inter-corporate investment and other means have acquired control over a significant volume of non-governmental corporate sector activity. But control need not be exercised only through the Controlling Interests' relative share in the assets of the companies either through ownership or inter-corporate investment. It can also be exercised through managing agents, common directors and similar other forms which enable the controlling group or authority to participate actively in the day to day business of such undertakings.

44. The growth of joint-stock companies managed by managing agents has been studied in a paper[15] prepared by the Reserve Bank of India. A sample of 1001 public limited companies was selected for the purpose. The study showed a decline in the number of managing agents from 407 in 1955 to 355 in 1959, with the number of companies they managed falling from 715 to 597. Their control declined from 73.3 per cent to 65.7 per cent in terms of net worth and from 72.3 per cent to 66 per cent in terms of total assets. The number of managing agents managing smaller units with net worth or total assets of less than Rs. 50 lakhs declined substantially

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15. 'Economic control in corporate industrial sector; a study of managing groups' by Reserve Bank of India (mimeographed).

in 1959 as compared to 1955, whereas the number of managing agents managing bigger units viz. with net worth or assets exceeding Rs. 5 crores increased somewhat during the period. The managing agents controlling units with net worth exceeding Rs. 20 crores controlled 23.0 per cent of net worth of 1001 companies in 1959 as compared to 15 per cent in 1955. In respect of total assets the managing agents in the corresponding class controlled 31.8 per cent of total assets of 1001 companies in 1959 and 28.2 per cent in 1955. Of the ten most important managing agents studied in the paper, Tata Industries (P) Ltd., Martin Burn Ltd., and Birla Brothers(P) Ltd., were the first three leading managing agents measured both in terms of net worth and total assets. These three managing agents managed 25 companies in 1959 which accounted for 20 per cent in terms of total assets of 1001 companies, while in 1955, these three units controlled 31 companies which accounted for nearly 16 per cent of the total assets of 1001 companies. Although the number of companies managed by these three groups has decreased, the control both in terms of net worth and total assets has increased. Thus, while the reform of Company Law has reduced the role of the managing agent in corporate affairs, within the reduced number of managing agents, the tendency is clearly visible of a strengthening of the influence of the bigger managing agents and consequently of concentration of economic power through the exercise of managing agency functions.[16]

45. Besides managing agencies, common directors or interlocking directorates constitute another method for bringing about concentration of economic power. Some light on the presence

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16. See also tables (4.14 and 4.15) for details of 25 leading business houses in 1960-61.

of this phenomenon in India is thrown by a special study of directorships in 331 companies with paid-up capital exceeding Rs. 50 lakhs each that has been made by the Company Law Administration. In terms of paid-up capital, these companies account for 60 per cent of the total paid-up capital of all companies at work in the country in 1956-57. The total number of directorships in the 331 companies selected for the study comes to 2,419 held by 1,502 persons acting as directors. However, these 1,502 persons have been found to be holding 7,366 other directorships besides the 2,419 directorships in 331 companies studied. The average number of directorships held by a person thus came to 6.5. Of the 1,502 persons, 26.6 per cent held single directorships, 53.2 per cent held two to ten directorships, 14.4 per cent eleven to twenty directorships and 5.8 per cent more than 20 directorships. In other words, 73.4 per cent of the persons acting as directors held multiple directorships and the total number of the directorships held by the directors holding single directorships accounted for about 4 per cent of the total of 9,785 directorships held by the 1,502 persons (Table 4.16).

46. The Central Statistical Organisation has also undertaken a similar study of common directorships among 282 large-sized public non-government industrial undertakings but for a later year, namely 1959-60 Table (4.17). The total number of directors of all these concerns put together was nearly 1800 indicating an average of 6 directors per unit. But several of these directors were found to be associated with more than one company. After making adjustments for repetition of names, the number was found to have come down to 1158. Distribution of these persons according to the number of directorships held, showed that 3 directors held 11 or more directorships, 11 directors held 8 to 10 directorships each and 37 directors 5 to 7 directorships each. Of the rest, 215 held 2 to 4

directorships each and 892 directors held single directorships. Thus compared to 1956-57, the prevalence of multiple directorships showed a decline from the point of view of heavy concentration of directorships amongst a few directors, but inter-locking still continues to be an important feature.

47. As regards directors' holdings in share capital this is only available for the earlier study and also only for 883 directors belonging to 121 companies, out of the 2,419 directors (inclusive of duplication) serving in the 331 companies covered in the study. The study[17] reveals that these 883 directors of the 121 companies held among themselves directly in their own names, 6 per cent of the total paid-up capital of the companies of which they were directors. The percentage holdings of the directors in the companies managed by their managing agencies work out to around 3 per cent, whereas those of the directors of the companies which are managed directly by their boards of directors work out to around 9 per cent. The financial stake of directors in the case of companies operated by managing agencies is low, because control in such companies is retained by the managing agency firm and not by the board of directors. As against this, the holdings of directors in the companies managed by boards of directors is higher, as control and management of the companies are retained by the directors. From the point of view of control, the figure of 9 per cent appears to be very low; however, it is likely that the directors, directly or indirectly, probably control a fairly high proportion of the capital of the companies through their benamidar relatives friends, financial institutions and companies. Further, due to dispersal of share holdings over a large number of persons,

17. By Company Law Administration.

a majority of whom do not take active interest in corporate decisions, it is not necessary to have a majority of voting rights to get or retain control of a company, even a block of 10 to 20 per cent of the voting rights being enough sometimes to acquire control. In addition, substantial holdings of share capital by disinterested financial institutions also encourage such control. Thus, without even a significant share of ownership, inter-locking of directors may lead to operational control of a number of big-sized industrial undertakings by one industrial house.

48. In this context, it is of interest to study the inter-locking between directorships of banks and non-government industrial undertakings within the economy. For the purpose, an analysis has been undertaken in the Central Statistical Organisation of the existing inter-locking between directors and managing directors of fourteen selected leading banks and the 296 large-sized non-government public companies with a paid-up capital of Rs. 50 lakhs or more in 1959-60. Out of these, 73 were not associated with any major industrial undertakings; 24 were directors of one industrial house each; 37 were directors of 2 to 4 undertakings each and the rest i.e. 14 were directors of more than 6 industrial houses each. The distribution of directors by banks is as shown below.

49. The dominance of industrial directors on the boards of commercial banks is seen to be much greater in the case of the first eight banks, in whose case they numbered 59 out of 77 per cent of the total. It is evident from the above that there is a significant link in the form of common directors between the leading banks and the large-sized industrial undertakings.

STATEMENT(12): FREQUENCY DISTRIBUTION OF DIRECTORS OF 14 MAJOR BANKS ACCORDING TO THEIR COMMON DIRECTORSHIPS IN INDUSTRIAL HOUSE AND THE PERCENTAGE OF INDUSTRIAL DIRECTORS TO TOTAL, 1959-60

sl. no.	bank	nil	only one industry	2-4 industries	5 industries and more	total number of directors	p.c. of industrial directors to total
(0)	(1)	(2)	(3)	(4)	(5)	(6)	(7)
1.	Bank of India	1	2	6	2	11	91
2.	Central Bank of India	2	-	7	1	10	80
3.	Punjab National Bank	3	1	4	1	9	66
4.	United Commercial Bank	3	5	5	-	13	77
5.	Bank of Baroda	2	2	4	4	12	83
6.	Allahabad Bank	2	1	1	1	5	60
7.	Indian Overseas Bank	1	4	1	-	6	83
8.	United Bank of India	4	2	4	1	11	64
9.	State Bank of India	11	5	1	4	21	48
10.	Indian Bank	10	1	1	-	12	17
11.	Canara Bank	8	-	-	-	8	-
12.	Union Bank of India	5	1	3	-	9	44
13.	Canara Industrial and Banking Syndicate	10	-	-	-	10	-
14.	Bank of Maharashtra	11	-	-	-	11	-
15.	grand total	73	24	37	14	148	51

50. Bank advances to concerns in which the directors of the banks concerned are interested, accounted for Rs. 184 crores in 1962. This constituted 12.4 per cent of the advances given by all scheduled banks. For the top 15 banks, the proportion was 14.1 per cent. It is sifnificant that this proportion is the highest for the State Bank of India. Details are given in the following Statement:

STATEMENT(13): ADVANCES TO COMPANIES OR FIRMS IN WHICH THE DIRECTORS OF THE BANK ARE INTERESTED AS DIRECTORS, PARTNERS OR MANAGING AGENTS, OR IN THE CASE OF PRIVATE COMPANIES, AS MEMBERS, 1962.

sl. no.	bank	advances (Rs. crores)	percentage to total advances
(0)	(1)	(2)	(3)
1.	State Bank of India	72.8	28.9
2.	Allahabad Bank	1.6	4.1
3.	Bank of Baroda	17.6	20.8
4.	Bank of India	31.2	24.5
5.	Canara Bank	0.8	3.0
6.	Central Bank of India	9.9	5.6
7.	Chartered Bank	5.5	10.8
8.	Devkaran Nanjee Banking Co.	0.5	1.7
9.	Indian Bank	2.1	6.8
10.	Indian Overseas Bank	1.6	6.6
11.	National & Grindlays Bank	7.9	6.6
12.	Punjab National Bank	2.9	2.9
13.	Union Bank of India	1.7	7.2
14.	United Bank of India	3.4	7.8
15.	United Commercial Bank	12.3	17.3
16.	total for 15 banks	171.8	14.1
17.	all scheduled banks	183.5	12.4

NOTE: Individual banks' figures are taken from the balance sheets for 1962. Figures 'relating to all scheduled banks have been taken from the "Statistical Tables Relating to Banks in India, for 1951 and 1962", Reserve Bank of India.

51. The banking sector itself presents a picture of high degree of concentration. The aggregate share of the 15 top banks having deposits of Rs. 25 crores and over in total deposits of 363 Indian joint-stock banks during the year 1959 was 78 per cent. If the Government-owned State Bank is excluded - and looking to the composition of its Board of Directors there is really no adequate reason for doing so - the percentage comes to 60. In stating this, we do not wish to suggest the continuance of unsound banking units merely because they are small in size. The present situation of a highly concentrated system, however, points to the need of effective steps to direct the resources of the system especially into the service of small and medium industries and business. We have already seen that the growth of the large Complexes, which represent concentration of economic power, is due largely to bank loans and that small industries get a very small share of bank finance. We have also seen the extent to which there is inter-locking between industrial houses and joint-stock banks through common directors. While it is not possible for the Committee to come to any categorical conclusions on this subject, the presumption seems strongly to be in favour of the thesis that there is an intimate relation between the growth of big banks and the growth of big business in the country during the Plan periods. How far this can claim justification on economic grounds and to what extent, if any, it represents a departure from the Constitutional directives and the Plan objectives for a reduction in the concentration of economic power are questions that can be answered only as a result of a much more comprehensive inquiry and by a full-time agency having much larger powers to obtain data than has been the case with our Committee.

52. In this connection, the Committee thinks it worthwhile quoting the following observation which was made by the Governor of the Reserve Bank of India in August, 1960:

> "One of the structural features of Indian banking is this concentration of power which, in some cases, is enormous in relation to the capital actually employed. From time to time, we come across cases in which a family or group has a controlling interest in a bank and it has become a major task of inspection to prevent the exercise of this interest in undesirable ways".

In view of the prevalence of mutual understanding among the big industrial Complexes, banks might give assistance not only to industrial concerns in which their own directors have a major interest, but also to other industrial houses which might in turn reciprocate through the banks on which they have strong representation. By its very nature this is a very difficult field for investigation. The organisation referred to by us at the end of this chapter should be able to make some advance in the study of this phenomenon. It may be noted that the ratio of capital and reserves to the aggregate deposits of the top banks in 1960 was only 3 per cent.

53. Case studies on the extent of inter-locking of company directorshops in seven selected typical companies belonging to seven leading Indian and foreign business groups have also been attempted to obtain some broad idea regarding inter-locking between competing companies and inter-connection between manufacturing and financial companies. The study of the seven companies (Andhra Valley Power Company Ltd. in Tata Group; Century Spinning and Weaving Company Ltd. in Birla Group, Standard Mills Ltd. in Mafatlal Group, Mcleod and Company Ltd. in Surajmull Nagarmull Group, Kamarhatti Ltd. in Jardine Henderson Group and Bengal Coal Company Ltd. in

Andrew Yule Group) reveals wide prevalence of inter-locking of directorships in companies belonging to long-established and reputed houses. However, the effect on the policies of the two companies with common director or directors would, to a certain extent, depend upon the personality of such common directors and the influence they wield on the strength of their associations with business houses etc. Subject to this limitation, it is seen that there is association of the seven companies studied, with financial companies, particularly banks and investment etc. through common directors. Further, the inter-locking of directorships of these seven companies with companies carrying on similar trade or manufacturing activity connotes horizontal integration which often results in common price and distribution and related policies which are of mutual benefit. The exact extent of such uniformity in business policy is, however, difficult to determine. The seven companies studied are often linked with non-profit making associations and even Government companies through their directors.

54. To explore further the inter-locking of directorship between distribution and industrial undertakings, the Department of Company Law Administration has undertaken a study which covers seventy-four marketing companies with paid-up capital of Rs. 5 lakhs and above. These companies are connected with 1111 companies[18] through 233 directors out of a total of 341 directors of 74 marketing companies. Out of 1111 companies inter-linked with marketing companies, 414 are manufacturing companies, 382 trading companies, 113 banking and financial companies, 19 electricity companies and 183 companies belonging to miscellaneous industrial groups.

18. Duplications of inter-linked companies as between directors of the same marketing company have been removed but not as between marketing companies.

55. Forty-one out of seventy-four companies studied here are having a board of three to five directors. 18 companies have a board of six to eight directors. Four companies are managed by boards consisting of nine to ten directors. Only eleven companies have two-director boards. Thus, compared to the all-India average size of the boards of seven directors in the case of companies with paid-up capital of Rs. 50 lakhs and above, the average size of the board of directors of the marketing companies is comparatively small with only 4.6 directors.

56. The number of companies, three-fourths or more of whose directors are interested as directors in other companies, come to thirty-eight. In case of ten companies 50 per cent to 75 per cent of the directors hold directorships in other companies. In other twelve companies, only 25 per cent to 50 per cent directors have directorship interest in other companies. In the case of five companies less than one-fourth of the directors hold directorships in other companies. On the whole, it can be said that most of the directors of marketing companies are having multiple interests which are not confined to only marketing companies.

57. Out of 74 marketing companies, only nine companies do not have their directors common with any other companies. In respect of remaining 65, eight companies are connected with 40 companies or more, twenty-four companies are connected to 11 to 39 companies through common directorships, and 33 companies have forged inter-locking of directorships with companies numbering ten or less than ten. Thus, most of the marketing companies are inter-locked with other companies through common directorships. It is, however, interesting to note that inter-locking of marketing companies does not depend much upon their size. Statement 14 gives the distribution

of 74 marketing companies according to their size and their inter-locking with other companies and shows that on an average the marketing companies are connected with 10 other companies through their directors.

STATEMENT(14): SIZE AND INTER-LOCKING OF MARKETING COMPANIES

sl. no.	no. of inter-locked companies	number of marketing companies				
		number of directors				Total
		2	3-5	6-8	9-10	
(0)	(1)	(2)	(3)	(4)	(5)	(6)
1.	0	3	6	-	-	9
2.	1-5	5	9	2	2	18
3.	6-10	2	6	6	1	15
4.	11-15	1	8	1	-	10
5.	16-20	-	3	1	-	4
6.	21-30	-	4	3	-	7
7.	31-39	-	2	-	1	3
8.	40 and above	-	3	5	-	8
9.	Total	11	41	18	4	74

58. One of the factors accounting for an increase in economic power of the large groups in recent years would appear to be the larger flow of foreign investment and technical know-how through joint ventures in Indian industry in collaboration with foreign interests. Established large industrial groups in India are in a much more advantageous position to obtain foreign capital and technical services. This itself may partly explain the increased concentration of control in the top business houses in recent years.

59. Last but not least in importance in the study of operational control is the inter-linking of directorship between private corporate undertakings and Government companies. This acquires special significance in view of rapid expansion of the public sector in the form of active participation in production and distribution activities. A study has been made by the Department of Company Law Administration of the inter-locking of Directorships between Central Government companies and non-Government companies. State Government companies have been excluded from this study because of their relative smallness from the point of view of the investment therein. The number of Central Government companies covered by this study is 49 and includes companies jointly owned by Central Government and the State Governments, as they are administered by the Central Government. The paid-up capital investment of the aforesaid 49 Central Government companies is Rs. 620 crores, forming 95 per cent of the total paid-up capital investment of all Central and State Government companies.

60. There were in all 428 directorships in these 49 Central Government companies and they were held by 311 persons of whom 86 were 'non-official' (Tables 4.18 and 4.19). Of the 49 companies, 13 have no 'non-official' directors on their boards. In eight companies the 'non-official' directors held no directorships in non-Government companies. In the case of one company a representative of foreign collaborator is on its board. Forty-two of the 86 'non-official' directors did not hold directorships in any non-Government company. The remaining 44 'non-official' directors held 50 directorships in 27 Government companies and 334 directorships in 308 non-Government companies. The number of directorships in non-Government companies held by these 44 'non-official' directors has been studied further and results of the analysis are as follows:

STATEMENT(15): DIRECTORSHIPS HELD IN NON-GOVERNMENT COMPANIES BY 'NON-OFFICIAL' DIRECTORS IN GOVERNMENT COMPANIES

sl. no.	number of non-Government companies in which the 'non-official' director of a Government company is a director	number of 'non-official' directors
(0)	(1)	(2)
1.	below 5 companies	20
2.	5 to 10 companies	10
3.	10 to 15 companies	5
4.	15 to 20 companies	5
5.	20 companies and above	4
6.	total	44

61. It is not possible to draw conclusions regarding the economic and social consequences of this inter-linking between government companies and directors of non-Government companies without a careful examination of the growth and working of the Government companies vis-a-vis the private undertakings where such common directorships exist. How far this helps the public sector by enabling it to obtain business expertise and how far it helps to increase the concentration of economic power in the hands of selected individuals in big business are questions that are pertinent but that we are not in a position to answer. Perhaps these constitute a part of the puzzle that characterises a mixed economy such as the country is building through its planned development.

62. Economic power is exercised not only through control over production, investment, employment, purchases, sales and prices but also through control over mass media of communication.

Of these, newspapers are the most important and constitute a powerful ancillary to sectoral and group interests. It is not, therefore, a matter for surprise that there is so much inter-linking between newspapers and big business in this country, with newspapers controlled to a substantial extent by selected industrial houses directly through ownership as well as indirectly through membership of their boards of directors. In addition, of course, there is the indirect control exercised through expenditure on advertisement which has been growing apace during the Plan periods. In a study of concentration of economic power in India, one must take into account this link between industry and newspapers which exists in our country to a much larger extent than is found in any of the other democratic countries in the world.

63. An analysis of the ownership of newspapers in relation to their circulation shows that there was some increase during 1960 in the concentration of newspapers under common ownership as represented by Chains, Groups and Multiple Units and the circulation commanded by them. For the study of ownership of newspapers, with special reference to trends in the direction of common ownership, all papers (dailies as well as periodicals) coming under common ownership are divided into three categories, viz.,

(1) Chains: Publication of more than one newspaper under common ownership from more than one centre.

(2) Groups: Publication of more than one newspaper under common ownership from the same centre.

(3) Multiple Units: Publication of more than one newspaper of the same title, language and periodicity, under common ownership, from different centres.

64. According to figures available from the Annual Report of the Registrar of Newspapers for India, for the year 1960, as 67.5 per cent of the total circulation of dailies in India came under the ownership of Chains, Groups and Multiple

Units. Out of a total circulation of 46.10 lakhs of dailies in different languages in the country, the share of those forming part of 17 Chains, 115 Groups and 27 Multiple Units was 31.10 lakhs. According to the same source, there were ten owners representing five Chains (Express Newspapers, Times of India Publications, Hindustan Times and Allied Publications, Amrita Bazar Patrika and Jugantar, and Ananda Bazar Patrika), three Groups (Malayala Manorama, Free Press Journal and Hindu) and two Multiple Units (Thanthi and Statesman) which published 37 dailies with a circulation of 18.11 lakhs and thus controlled 39.3 per cent of the total circulation of daily newspapers in the country. Taking the three categories separately, dailies forming part of Chains commanded 34.7 per cent of the total circulation of dailies, those belonging to Groups 23.8 per cent, and those coming under Multiple Units 9 per cent. In 1960, there was an increase in number of Chains from 14 to 17 and in Groups from 99 to 115 while the number of Multiple Units remained the same, viz., 23. In addition to 17 Chains mentioned above, the Communist Party of India is publishing a chain of 34 papers having a total circulation of 101,810.

65. The following statement shows the number of Chains, Groups and Multiple Units in 1959 and 1960 and the number of papers controlled by them.

STATEMENT(16): CHAINS, GROUPS AND MULTIPLE UNITS IN NEWSPAPERS

sl. no.	year	Chains		Groups		Multiple Units	
		no.	newspapers	no.	newspapers	no.	newspapers
(0)	(1)	(2)	(3)	(4)	(5)	(6)	(7)
1.	1959	14	101	36	99	23	63
2.	1960	17	103	42	115	23	60

The list of first five Chains, Groups and Multiple Units (ranked in order of total circulation commanded) as on December 31, 1960 together with the total circulation of each is included in Table (4.20) in the appendix for further details.

66. While the data given above clearly establish the fact of concentration in our newspaper industry, it has not been possible for the Committee to examine its inter-connection with industry and with the Complexes and Inner Circles that control so much of economic power in Indian industry. Not only is this a time-consuming task involving full-time work but also it requires larger powers of calling for data, scrutinising it and going into ramifications of accounts that only a full time agency can undertake. A study of concentration of economic power cannot, however, be complete without such an inquiry; and such inquiry could deal not only with the details of concentration within the newspaper industry but go further and examine the inter-connection that exists between newspapers and industrial Complexes and Inner Circles with a view to assessing its consequences on the concentration of economic power in the country. It would be specially necessary to examine the connection, if any, between the top units in industry proper and the top units in the newspaper industry.

67. The data we have given in the previous paragraphs do indicate the presence of concentration of economic power within the economy in terms of income, property and especially of control over the non-Governmental corporate sector. There can also be no doubt that, in part at least, the working of our planned economy has encouraged this process of concentration by facilitating and aiding the growth of big business in India. How far this is an inevitable part of the process of economic development, how far it can be justified in terms of economy of

scale and full utilisation of scarce managerial and entrepreneurial resources, how far it is consistent or is in conflict with the declared objectives of our Constitution and our planned economy, and how far the growth which has taken place is unhealthy and anti-social in its consequences - all these are questions that we can only pose for further and detailed inquiry. It is true that except for the Complexes, statistics do not show any definite and significant trend in concentration ratios during the first ten years of planning. It is also relevant to note that during this period, Government has sought to limit unhealthy growth through a series of counter vailing measures such as company law reform, licensing of industrial units, control over capital issues, increasing scrutiny by the Reserve Bank, and other allied measures. They have also sought to create countervailing power by public investment, deliberate expansion of the public sector in industry, encouragement of new-comers in the private sector in industry, special facilities and aid for small industry, and promotion of co-operative organisation in industry and marketing.

68. Inasmuch as a major line of attack on the problem of concentration of economic power would lie in intensifying the countervailing action, it is useful to explain in somewhat greater detail the measures which have so far been taken in this direction.

69. Among the foremost of these is a relative expansion of the public sector in industry. As compared to 1950-51, by the end of the Third Plan, the contribution of the public sector was expected to increase from less than 2 per cent to nearly a fourth in organised manufacturing industries and from less than a tenth to over a third in mineral production. During the Third Plan period public sector investment in industry and minerals is expected to be Rs. 1530 crores as against only

Rs. 10[illegible]0 crores in the private sector. These figures imply that the relative place of private sector industry in the total industrial Complex of the country will continue to shrink. In particular, the public sector is responsible for the development of the major key industries, which, if left to the private sector, would have increased concentration; and once the growing investments in these industries fructify, concentration of economic power is likely to diminish.

70. Moreover, important industries which are in private hands are subject to State regulation in a number of ways, e.g. through control of production, prices and distribution. Besides, industrial licensing seeks to regulate the expansion of new capacity and, to the extent possible, encourages entry of new medium-sized firms in competition with existing large enterprises. The licensing provisions seek to ensure, however imperfectly, a degree of regional and other diversification of industry and to prevent the emergence of industrial monopolies, though this objective has to be constantly balanced against the equally imperative need of promoting attempts to eliminate abuses and malpractices and avoid exdessive inter-company investment.

71. For encouraging the growth of new entrepreneurs and small industry, various institutions have been developed with a view to providing technical assistance, marketing facilities and credit. The setting-up of the National Small Industries Corporation, Small Industries Service Institutes, various Boards for different cottage and handicrafts industries, for Governmental, technical, financial and marketing assistance, establishment of State Financial Corporations, institution of the State Bank of India schemes of lending and the Credit Guarantee scheme for encouragement of commercial banks' lending to small industries are a few of the measures to broadbase the process of industrial development and combat the undoubted advantages enjoyed by large enterprises. In the same category falls the substantial assistance extended by

Government to cottage and small industries through the setting-up of a large number of industrial estates to provide an appropriate framework of basic facilities. These incentives and facilities granted to the new entrepreneurs are encouraging their emergence in increasing number. This is likely to have a salutary impact on economic concentration in Indian industry in the years to come.

72. The fiscal instrument has, furthermore, been pressed into service to lessen inequalities in income distribution through a sharply progressive tax system. The main task in his sector remains that of more effective enforcement of the tax levies, which is a function of improvement in tax administration.

73. Despite all the countervailing measures taken which have been recounted above, concentration of economic power in the private sector is more than what could be justified as necessary on functional grounds, and it exists both in generalised and in the specific forms. It is not within our terms of reference to suggest what should be done to remedy the situation and combine economic development with a steady diminution of the concentration of economic power. Undoubtedly, an extension of the scope and intensity of countervailing measures to alleviate the incidence and offset the effect of economic concentration indicates the general direction of attack on the problem. At the same time, for devising adequate corrective measures in consonance with the economic growth objectives, more comprehensive and detailed information regarding the many aspects and ramifications of economic power and controls in the private sector is required than has been available to us. Such information could be collected only by a full-time agency as suggested in para 31, if it is set up with both the necessary legal authority and competent full-time staff to enable it to carry

out its task. The task is not easy. The country has a mixed economy; and the private sector has an important role to play in its planned economic development. Industrialisation has its own logic, and neither the economies of scale nor that of full utilisation of scarce talent can be ignored with impunity. Economic development within a democratic framework remains a paramount objective of national policy. At the same time, the country is pledged to the realisation of a socialist pattern of society; and diminution and eventual elimination of concentration of economic power in private hands is a part of that society. The task has to be attempted in terms of harmonious progress towards these goals; and the sooner the Government sets up the necessary machinery for collection, examination and analysis of all relevant data on the subject, the easier it would be for it eventually to formulate the necessary policy that will combine industrialisation with social justice and economic development with dispersal of economic power.

P.C.MAHALANOBIS,
Chairman

B.N. DATAR,
Member

V.K.R.V.RAO,
Member

P.C.MATHEW,
Member

P.S.LOKANATHAN,
Member

B.N.GANGULI,
Member

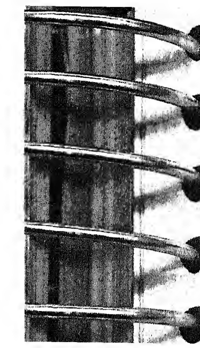
VISHNU SAHAY,
Member

D.L.MAZUMDAR,
Member

B.K.MADAN,
Member

K.R.NAIR,
Member-Secretary
25 February 1964.

SOURCE: Report of the Committee on Distribution of Income and Levels of Living, Part-I, Distribution of income and welath and concentration of economic power, Chapter-4, Concentration of Economic Power, Planning Commission, Feb. 1964, pp. 25-55.



CONCENTRATION OF ECONOMIC POWER

20.1 Objectives underlying the Act

One of the a vowed objectives underlying the Monopolies and Restrictive Trade Practices Legislation is to ensure that the operation of the economic system does not result in the concentration of economic power to the common detriment. The authority for this is derived from the Directive Principles of State Policy contained in Article 39 of the Constitution which lays down tha t the State shall direct its policy towards securing tha t the operation of the economic system does not result in the concentration of wealth and means of production to the common detriment. The specific measures for attaning this objective are contained in Chapter III of the Act.

20.2 The need to prevent concentration of economic power which may lead to commondetriment did not suddenly emerge from the Act. For quite some time earlier, afeeling had been growing in the country that economic power was being concentrated ina few hands. Prof.Mahalonobis Committee on Distribution of Incomes and Levels o f Living in October, 1960, had concluded tha t the wide range of variation that one finds between the top and bottom ten per cent of the population clearly revealed the existence of concentration of economic power in the country. The Committee also found tha t the top ten per cent of the population received as much as forty per cent of the income. Subsequently a study o f

industrial licensing procedures by Prof. Hazari had also concluded that the working of the licensing system had led to disproportions to growth of some of the big business house of the country. The Monopolies Inquiry Commission had also found that top 75 business houses (comprising 1,536 companies) had totalassets of Rs.2,605.9 crores which constituted as much as 46.9% of the total assets of non-Government companies (being Rs.5,522.14 crores). It also found that the paid-up capital of these houses was Rs.646.32 crores which was 44.10% of the total paid-up capital of these the private sector which was Rs.1,465.46 crores. Similarly, the Dutt Committee which submitted its report in 1969 also came to the conclusion that the working of the industrial licensing system had helped in the growth of large industrial houses. It was thus with a view to check these obvious signs of concentration of economic power that Chapter III was incorporated in the Act.

20.3 Registration of undertakings

The provisions of Chapter III are applicable to undertakings which either by themselves of together with inter-connected undertakings have assets of not less than Rs.20 crores and to dominant undertakings which either by themselves or together with their inter-connected undertakings including the inter-connected ones are required to be compulsorily registered with the Central Government (section 26). Till 30th June, 1978, 1,396 undertakings had been so registered. Out of them, registration of 234 undertakings was

cancelled on representation. Thus the net registration as on 30th June, 1978, was 1,162.

20.4 Suggestions have been received in some of the memoranda for upward revision of the criterion of Rs.20 crores of value of assets for purpose of applicability of the provisions in Chapter III of the Act. Suggestions have been made that it should be raised to Rs.50 crores. We have considered this matter but we do not feel that any change in the criterion of Rs.20 crores assets is necessary at present.

Some Members have also suggested that it should be on record that concentration of economic power, however, cannot in practice be curbed by the mere fixation of any monetary limit. This is because the expansion of a group beyond a point can happen only with the full knowledge, and in many cases, with the approval of the Government. So, in the last resort, the enunciation of policy in regard to expansion or growth of a house of the exercise of discretionary power by the Government is really responsible for preventing any concentration beyond whatever limit may be determined.

20.5 Substantial Expansion

Subject to certain exceptions, substantial expansion and establishment of a new undertaking or a proposal for merger, takeover to which Part A of Chapter III applies, cannot be effected unless such proposal has been approved

by the Central Government vide sections 21, 22 and 23. Such approval will only be granted if the Central Government is satisfied that the proposal for such expansion or setting up of new undertaking is not likely to lead to the concentration of economic power to the common detriment or is not likely to be prejudicial to the public interest in any manner, and it is also expedient in the public interest to accord approval. In according such approvals, regard shall be had to the considerations laid down in section 28. Thus, for undertakings covered by Part A, it is not enough that they fulfil the requirement of industrial licensing policy. They must also pass the further test that such expansion or establishment of new undertaking will not lead to concentration of economic power to the common detriment.

20.6 Similarly, schemes for merger, takeover, amalgamation of undertakings to which Part A applies cannot be given effect to unless the Central Government has given its approval (section 23).

20.7 Reference to Commission

In the present scheme of the Act, it is optional for the Central Government to refer the proposals for expansion and establishment of newundertaking (as also for merger, amalgamation and takeover) to the Monopolies Commission for inquiry and report. Even after the receipt of the report from the Commission, there is no compulsion on the Central Government to pass any order as it may think fit, even contrary to the advice of the Commission.

20.8 Procedure for disposal of applications under the Act

There has been some criticism in the public and the press tha t the Central Government has diluted the role of the Commission and has not allowed the latter to play the role assigned to it under the Act. Before any view can be expressed, it will be instructive to know how the provisions, of sections 21, 22 and 23 have so far beenworked. It appears tha t after the Act came into force, aninter-Ministerial Advisory Committee was constituted in the Depa-rtment of Company Affairs to consider applications under sections 21 and 22 of the Act. The said Committee was entrusted with the function of considering the proposals and advising the Government whether a reference may be made to the Commission and whether the proposals should be approved or rejected without such a reference. In cases where the matter was referred to the Commission and after the Commission had submitted a report, the Central Government gave an opportunity to the par ty to be heard under section 29 of the Act before passing a final order. The final orders were issued after approval by the Cabinet Committee on Economic Policy and Coordination except in cases where the proposal was to be re rejected and the administrative Ministry concerned concurred in the decisions of the Depa rtment of Company Affairs to reject. The matter was placed before the Advisory Committee after the concerned Ministries including the Depa-rtment of Economic Affairs, the Department of Banking. DGTD,

DCSSI and Planning Commission had given their views on the proposals. In cases where the industries (Development and Regulation) Act (I(DR) Act) was applicable, the application had to be routed through the Licensing Committee. A new procedure for simultaneous processing of applications under the I(DR) and the MRTP Act was brought into force with effect from Ist of November, 1973 when Secretariat for Industrial Approvals (SIA) was established in the Department of Industrial Development. Inthe case of MRTP undertakings simultaneous applic-ations under the MRTP Act and the I(DR) Act are made to the Department of Company Affairs and the SIA respectively. The applications are considered by the LC-cum-MRTP Committee or the Project Approval Boa-rd, on which the Department of Company Affairs is represented. The Project Approval Board or the LC-cum-MRTP Committee, as the casemay be, now discharges the functions of the Advisory Committee in so far as applications from the MRTP undertakings are concerned. In cases where the I(DR) Act is not applicable, the old procedure of considering these applications by the Advisory Committee in the Depa-rtment of Company Affairs continues to be in force. In so far as the a pplications under the Act are concerned, the matter is now finally approved by the Minister of Law, Justice and Company Affairs and is not required to be submitted to the Cabinet Committee.

20.9 Over the period, the Government has authorised relaxation of procedure in certain types of cases in the public interest in accordance with the provisions of the MRTP Rules, 1970. For instance, it has issued an order under Rule 4A by which it has dispensed with the publication of general notice in respect of the class of undertakings engaged in production in the areas of Santa Cruz Electronic Export Processing Zone and Kandla Free Trade Zone. The result is that in practice, if any applications are made by MRTP undertakings for setting up an undertaking in these areas, no objections are invited nor any hearing under section 29 of the Act is given. Certain other industries have also been notified by the Central Government in which diversification is permitted and they have been granted exemption from the making of format applications under the Act.

20.10 Out of 618 effective applications received by the Central Government from Ist of June 1, 1970 to 31st of December, 1977 under sections 21, 22 and 23, only 59 cases were referred by the Government to the Commission. Out of 59 cases, the applicant parties did not pursue 15 cases and withdraw their applications. As on 31st March, 1978 there were only 2 cases pending with the Commission under sections 21 and 22. Proceedings had not been taken in one because of the stay given by the Court; in the other one which had been referred in 1978, the Commission has since sent its report to the Government. The 618 effective cases consisted of-

(a)	Section 21	:	354
(b)	Section 22	:	183
(c)	Section 23	:	81

Reference was made to the Commission only in regard to 33 appli-cations under section 21, 19 under section 22 and 7 under section 23.

20.11 Of the 552 disposed of applications, approval was given in 407 cases as indicated below:-

(a)	Section 21	:	241
(b)	Section 22	:	102
(c)	Section 23	:	64
	Total		407

20.12 The percentage of approval works out to be about 74%. The number of aapplications pending on Ist January, 1973 with the Government was 36 under section 21, 23 under section 22 and 7 under section 23, totalling 66.

20.13. While in the initial years the Government made quite a few references to the Commission, the flow of such references to the Commission almost dried up in the later years. Thus, out of 246 cases under sections 21 and 22 of the Act finally disposed of by the Government between january 1974 to December 1976, 227 cases were decided without reference to the Commission and in only 19 cases the Government's decision was given after obtaining the reports from the Commission. Out of these 19 cases, 3 cases were recommended by the Commiss-ion for rejection and these recommendations were accepted by the Central Government accorded approval

in other 13 cases subject to the revised conditions.

20.14 Similarly during the period from Ist January, 1977 to 30th June, 1978, the Central Government passed final orders in 90 cases under secti-ons 21 and 22 of the Act. Of these, 84 cases were decided without reference to the Commission and in only 6cases. the Government's decision were given after obtaining the reports from the Commission. Out of 6, 3 cases were recommended by the Commission for rejection and these recommendations were accepted by the Central Government. It will thus be seen tha t in the over-all analysis, 92% and 93% of the applications under sections 21 and 22 were disposed of by Central Government without reference to the Commission during the period from Ist January, 1974 to 31st December, 1976 and during the Ist January, 1977 to 30th June, 1978 respectively. Thus, during the period Ist January, 1974 to 30th June, 1978, 311 actively applications out of the total of 336 under sections 21 and 22 of the Act i.e. 92.6% were disposed of by Central Government without reference to the Commission. It is thus apparent that the role of the Commission in the consideration of applications under sections 21, 22 and 23 has been reduced to almost the minimum.

20.15 The Monopolies Commission had anticipated this tendency and raised this point way back in its Second Annual Administration Report laid before the Parliament in 1972. The Report said, "the Commission has, however, observed tha t

a number of cases of large magnitude and importance to the economy were decided by the Central Government without reference to the Commission... But the Commission is not able to understand the policy which is being pursued in this respect.... The Commission cannot help feeling that there is some incongruity in that some times cases not involving any major issue were referred to the Commission while others which would prima-facie involve important considerations are not so referred... It would be much better if clear guidelines are laid down by the Government regarding the cases to be referred to the Commission and otherwise" (Page 18). The Department of Company Affairs answered this criticism in the Annual Reports for 1972 to 1974 by pointing out that the majority of the cases could be decided without further inquiry as the applications and information being submitted by MRTP undertakings were generally found to be complete and in accordance withthe revised industrial policies of the Government (New Industrial Policy Statement was announced on 2nd February, 1973 spelling out, inter-alia, the industries open to large houses), it had not been considered necessary to make any reference to the Commission.

20.16 Whatever may have been the reasons underlying the disposal of almost overwhelming number of cases by the Central Government itself without making a reference to the Commission, it cannot be imagined that, when in the Act Provision was made giving a discretion to the Central Government whether or not to re-fer the matter to the Commission, it would lead to the situation of almost total elimination of the role of the Commission. Criticism, therefore, that the Commission

has ceased to play any effective role in the consideration of the matters relating to concentration of economic power, as visualised in sections 21, 22 and 23 cannot but the held to be justified. No doubt, on the other hand, sometimes, it is said that there is an in-built resistance to allow expansion or setting up of a new undertaking by large houses on the part of the Central Government. Facts, however, show that in the ar assets of the large business houses, there has been a considerable increase right through all this period. The Monopolies Inquiry Commission had estimated that in 1963-64, the assets of non-Government and non-banking companies amounted roughly to Rs.5,552.14 crores. The latest figures for top 20 business houses which are registered under the MRTP Act show that the value of assets has risen from Rs.2,430.61 crores in 1979 to Rs.4,465.17 crores in 1975; the percentage of increase of assets between 1972 and 1975 being 38.6. It is interesting to note that in 1975 the first two large industrial houses of this group of 20 (i.e.10%) had assets of Rs.1,768.49 crores which works out roughly to 40% of the total assets of the top 20 industrial houses.

20.17 The percentage of increase in value of assets of top 20 large industrial houses shows that the percentage increase over 1969 had been to the extent of 25.9, 38.9, 61.3 and 83.7 in 1972, 1973, 1974 and 1975 respectively. The average annual increase during these years from 1969 works out to 8.6%, 9.7%, 12.2% and 13.9% respectively. The percentage

of increase over previous years also comes to 10.3, 16.1 and 13.9 for the years 1973, 1974 and 1975 respectively. These figures will show that the Act has not stifled the growth of the economy. The Central Government has beenquite liberal inallowing expansion or the setting up of new undert-aking. But the legislative policy of the Act that before any expansion ect, is allowed, the advice of the Commission should be obtained has not, by and large, been followed. We see no justifiable reason why the Central Government should not avail itself of the forum provided by an expert body like the Commission for examination indepth of the proposals submitted to the Government. We also see no reason why the Central Governmen should place itself in a position in which it avoida-bly invites criticism by withholding an objective examination by the Commission in whichthere may be more than one party in-vol-ved. Surely, in all these cases, public interest is involved and would be demonstrably sub-served. It seems only proper that an impartial and expert body like the Commission should be allowed to examine the matter and give the benefit of its views on matters pre-eminently falling within its purview.

20.18 Logically, it could be urged that all appli cations under sections 21, 22 and 2 3 should invitably be referred to the Commission and, further that the report received from the Commission should be binding on the Government. In principle, we can find no faul-t with such an approach

But somehow, as already pointed out, the Act has been worked differently. Government has in the past decided a bout 92.6% of the cases on its own without reference to the Commission. We would, for the present, content ourselves by adopting a middle approach so as not tomake a clean break with the the existing practice which may result in sudden dislocation. In the context of the scheme of increase of workload of the Commission which we are recommending elsewhere, it would be desirable tolimit at present such mandatory references to the Commission under Chapter III to the more important cases. We would, therefore, recommend that in the following types of cases under sections 21 and 22, the proposals should be compulsorily and mandatory referred by the Central Government to the Commission for inquiry and final dispsal:-

(i) Applications recieved from a dominant undertaking for expansion or for setting up of a new undertaking for the manufacture of goods or provision of services in whichit is already dominant;

(ii) Any application by any undertaking to which Part A of Chapter III applies for expansion or setting up of a new undertaking involving an estimated capital outlay exceeding Rs.5 crores; and

(iii) Any case in which more thanone undertaking is the applicant or a case in which objections have been raised opposingthe proposal.

20.19 The present procedure for making applications initially to the Central Government in all casds should continue. On scrutiny, if the Central Government finds that the proposal falls in any of the three categories to referred to above, it shall refer the proposal to the Commissi on, who will then inquire i to the matter and pass final orders. In such cases, it will rot be necessary for the Commission to send its report back to the Central Government has at present in granting or refusing approvals. Inthis conetext, we feel that a time limit of thirty days may be prescribed in section 30 of the Act within which the Central Government should refer the proposal to the Commission. Sub section (2) of the existing section 30 provides for the Commission reporting back to the Government within ninety days. We suggest that the same period of ninety days should be provided for the Commission to pass final orders except where the Commission, for reasons to be recorded inwriting, is of the opinion that the order cannot be made within the said period. We recommend tha t section 30 of the A-ct should be amended suitably.

20.20 So far as the cases other than those referred to in para 20.19 above are concerned, we hope tha t the Central Government will gradually develop a convention to make the reference in those kinds of cases also to the Commission, but we would not make it compulsory at this stage. We may mentionhere that the investment pattern of the proposal s received under section 21 for the years 1976 and 1977 shows

that out of total of 45 cases in the year 1976, 38 were proposals in which the investment was below Rs.5 crores. For the year 1977, there were 49 proposals out of which the proposed investment in 39 cases was below Rs.5 crores. Applications under section 22 showing investment patternbelow Rs.5 crores in the year 1976 were 27 out of the total of 37, and for 1977, the number was 18 out of 30. Broadly, therefore, it may be estimated that the figure of Rs.5 crores capital outlay suggested by us as a cut-off point beyond which the cases are to be compulsorily referred to the Commission under sections 21 and 22, will only cover nearly 20 to 25% of the cases arising in a year. Dominant undertakings filed only 4 proposals under section 21 in the year 1976 and the same number in1977. Though we are aware that this number is small,we are hoping that very soon this number will increase as the Government decides to refer other cases also to the Commission. (If the capital outlay figure was takenas Rs.3 crores, this may cover approximately 50% of the cases which arise for decision).

20.21 It is conceivable tha t in certain situations the reference to the Commission may not be necessary incases which are otherwise to be compulsorily referred to the Commission, if the circumstances are extraordinary and ofspecial significance. It may accordingly be provided that, where the Central Government is of such an opinion, it may, for reasons to be recorded in writing and onone or more of the following grounds alone, dispense with reference to theCommission, viz:-

(a) In the interest of defence of India; or

(b) Security of the State; or

(c) Meeting exclusively export requirements.

In the aforesaid types of cases, the parties may move the Central Government with the necessary application and the Central Government may exercise its discretion either to deal with such application themselves on the aforesaid grounds or may refer the same to the Commission for decision.

20.22 At present, under the Act, the report received from the Commission may or may not be accepted by the Central Government. We have earlier specified the types of cases in which reference must be compulsorily made to the Commission under Section 21 and 22. Even in other category of cases under sections 21 and 22 when the Central Government itself beingof the opinion that no order can be passed without further inquiry by the Commission refers them to the Commission, we see nologic or principle why the findings of the Commission should be further scrutinised by the Central Government. It will be appreciated that section 28 enumerates the matters which are to be taken into account both by the Central Government as well as by the Commission in according approval in exercise of the powers under Part A and Part B of Chapter III. This really means that power of both the Central Government as well as the Commission is broadly circumscribed by considerations mentioned in section 28. Other relevant factors such as the current industrial and economic policies of the Government will

in any case be brought before the Commission by the Government Departments and other concerned parties. When, therefore, the Commission passes an order either on those references which are compulsorily referred to the Commission or on those cases which may have been referred to it by the Central Government, it will apply similar yardstick and will have to pass order having regard to the matters referred to it in section28 and other relevant factors. All orders passed by the Central Government or by the Commission under Chapter III areappelable to the Supreme Court vide section 55 of the Act. In that view it does not seem to us to be correct in principle or inkeeping with the positionof the Commission, that a quasi-judicial body set up especially under the Act should have its decisions reviewed by the executive on precisely the same considerations onthe basis of which the decision has already been given by the Commission. It seems to us that apart from being derogatory to the position of the Commission, the same isa totally unnecessary time-consuming and wasteful exercise. There is no permissible reason to empower the Central Government to again reconsider re-examine the matter and take a contrary view from that taken by the Commission. In such cases, the requirement of sending the report to the Central Government serves no purpose. We feel that instead the Commission should be empowered in such cases to pass the final order on its own. Of course, before passing the order, the Commission, apart from giving notice to any other party interested in the matter,

will also give notice to the Central Government so as to enable it to place its view-point before the Commission. We would, therefore, recommend that if once the matter has been referred by the Central Government, the Commission shoud have power to pass final order and the decision given by the Commission should be binding on the Central Government.

20.23 Procedure for Mergers and Amalgamations

Section 23(1) and (2) deals with the scheme of merger or amalgamation of an undertaking. Thescheme of the Act is that on application has to be made to the Central Government whomay, if it thinks fit, refer the same to the Commission but isnotbound to do so. The Central Government has the discretion topass anyorder as it deems fit on receipt of the Commissions report. Unless the scheme of merger or amalgamation is approved by the Central Government, it cannot be sanctioned by any court or be recognised for any purpose or be given effect to. Under the companies Act, as it stands at present, schemes of merger or amalgamation are required to besanctioned by the respective HighCourts in whose jurisdiction the registered offices of the companies covered by the scheme of meger/amalgamation are situated. This results in delaying the proceedings. Inorder to simplify the law and the procedure and also to ensure expeditious disposal of such matters, wehave recommended in Chapter XVII that if there are two or more companies having registered offices under the jurisidiction of different High Courts, only one application may be made inthe High Court within whose jurisdiction the registered office of the transferee

company is situated . The Committee considered whether requirement of sanction by the High Court could be avoided. But in view of the follow-up and supervisiorof schemes of merger, the Committee thought that it may place unnecessary burden on the Commission. We, therefore, do not recommend any other change in procedure in section 23(1) and 23(2). The only exception we would recommend is that where a scheme ofamalgamation or merger of an undertaking covered by section 20 of the Act is approved by the Central Government in terms of section 396 of the Companies Act, in the national public interest, no further approval should be required under section 23(2) of the MRTP Act.

20.24 Takeovers

Section 23(4) provides for acquisition by purchase or takeover or otherwise the whole or part of an undertaking. Here also, the refer nce to the Commission is at the discretion of the Central Government. We feel that this is an area in which some cases at least should receive the benefit of an objective examination by an expert body like the Commission. Accordingly, we recommended that the applications to acquire by purchase, takeover or otherwise shall be compulsorily referred by the Central Government to the Commission in the following cases, and the Commission will be competent todispose it and pass final orders on them:-

(i) Any proposal relating to acquisition by purchase, takeover or otherwise of the undertaking which

together with the shares, if any, to which the transferee is already beneficially entitled or in which the transferee already has a beneficial interest, car y the right to exercise or control the exercise (in the case of a public limited company) of 33⅓% or more of the voting power at any general meeting of the company proposed to be acquired.

(ii) The cost of purchase or acquisition exceeds Rs.three crores; or

(iii) Where the acquisition by purchase, takeover or otherwise is likely to result in the creation of a dominant undertaking within the meaning of section 20(b) of the Act.

20.25 Section 27 of the Act enabl-es the Central Government, if it is of the opinion that the working of an undertaking to which Part A of Chapter III aplies, is prejudical to public interest or has led or is leading or is likely to lead to adoptionof any monopolistic or restrictive trade practice, to refer the matter to the Commission for an inquiry as to whether it is expedient in public interest to make an order for the divisionof the undertaking or of the inter-connected undertaking into such number of undertakings as the circumstances may justify. Since the coming into force of the Act, this pow power has beeninvolved by the Central Government only in two cases one of which was later on withdrawn by it, and in the other proceedings are still pending.

20.26 Now section 27 enables the Central Government to obtain the advise of the Commission in case the former is of the opinion that the largeness of an undertaking has led to the concentration of economic power to the common detriment which is prejudicial to public interest. This power to initiate proceedings for division of undertakings is conditional on the formation of an opinion by the Central Government. Evidently a matter regarding division of any inter-connected undertaking so as to prevent concentration of economic power is one on which the Government alone is competent to take a view. No general guidelines can be laid down in this regard. The terms of reference of the Committee do not call upon it to suggest whether any particular type of undetaking should be divided or should be asked to shed or divest any of its assets and activity. And rightly, so because this is a matter which the Government must itself decide keeping in view the expectations of the public that large monopoly houses must not be allowed to grow without direction so as to be prejudicial to public interest and the economy. The mandate of the Constitution that State Policy must be direct d to prevent concenyration of economic power to the common detriment has to be honoured by the Government and if, in pursuance of this objective, it is necessary to divide any inter-connected undertaking of large houses, Government is inlaw duty bound to do son. So far as the statute isconcerned, the exercise of the power by the Central Government

is clearly spelt out. No legal decision has created any impediment so far in the way of the Central Government to so act if circumstances so justify. Whether the circumstances in the country require the growth of the large houses still further inorder to increase industrial production in the country or whether the growth of the industry could be better sub-served by encouraging the large number of competing entrepreneurs and by division of inter-connected undertakings ispre-eminently a matter of public policy, which can be initiated by the Government alone. Political will and circumstances mentioned in section 27 of the Act and not any elucidation in law are the preconditions for any decision whether to divide any large house, because law clearly provides for division of any undertaking or inter-connected undertaking or large houses if the Central Government is of the opinion that the continuance of it has led to concentration of economic power to the common detriment which is prejudical to public interest. The Committee does not find that Government power has ever been or is constrained by any deficiencies in the Act which may call for any amendment. A suggestion that this power to initiate action under section 27 should be given to the Commission does not find favour with us. This is so because detailed knowledge and information concerning the structure and finance of not only the undertaking but also of the general economic conditions pertaining to any particular trade or industry in the country would be necessary to initiate this step. The analysis of this

vast reservoir of information and data and other details which necessarily must precede formation of an opinion to invoke section 27 could only be satisfactorily taken by the Central Government. The Commission may not have the necessary infrstructure to initiate the proceedings on its own for division of any undertaking. We feel that this power of initiating an inquiry under section 27 should continue to remain with the Central Government.

20.27 However, the position with regard to passing final orders after the matter has been referred by the Central Government to the Commission stands on a different footing. Sub-section (2) of section 27 gives a discretion to the Government to act on the report of the Commission or not. Now the Central Government makes a reference because prima facie it is of the opinion that the working of the undertaking is prejudicial to public interest. Once therefore, the Commission has, after inquiry, also taken the same view, that a division ought to be made, there seems no reason why the matter should be reported back to the Central Government and reconsidered by it. It is apparent that a large number of adjustments, creation of rights, settlement of claims and adjustments of contracts is called for. All these matter are pre-eminently fit to be decided by the Commission and not by the executive agency like the Central Government. We, therefore, feel that once a reference has been made by the Central Government, all further action, whether to divide the undertaking and the consequential

steps to be carried out, should be done under the supervision and control of the Commission. It is not necessary nor is it desirable to involve the Central Government with the subsequent stage. It may be mentioned that in other countries, all the cases of division of undertakings are brought before the ordinary courts, who pass final orders without the same being subject to scrutiny by the Government. We do not see any reason why, when the ordinary Courts can be entrusted with the function, a specialised body like the Commission should be kept away from it and its role be made only of an advisory nature. We would, therefore, recommend that in this aspect instead of Central Government as at present, power should be given to the Commission to pass final orders under section 27 and should not be reviewable by the Government and be treated as final.

20.28 In regard to the applicability or otherwise of section 13 of the I(DR) Act with reference to section 21(4) of the MRTP Act, because of the different nomenclatures adopted under the I(DR) Act and the MRTP (Classification of Goods) Rules, lengthy correspondence with the concerned Ministry is involved to find out whether the said expansion is covered within the said section. Because of the different classification, it quite often becomes difficult to reconcile the situation with the result that the matters get delayed. A suggestion was, therefore, made that sub-section (4) of section 21 should be deleted. The Committee, however, after having considered the matter,

came to the conclusion that the difficulties pointed out were of administrative nature and could be overcome administratively and did not call for deletion of this provision from the Act.

20.29 Substantial Expansion

Substantial expansion under section21 is deemed to be where the value of assets before the expansion results in an increase by not less than 25% of such value or the production, supply or distribution of any goods or the provision of any services by it before expansion would result in an increase by not less than 25% of the goods produced, supplied, distributed or controlled. Thus, even if the value of the assets increases by less than 25% but the production of the goods increased by not less than 25%, the partyis to take the approval before going in for expansion of the undertaking. We feel that i substantial expansion in the value of assets is brought about as a result of the replacement or moderrisation of the plant and machinery subject to the licenced/approved capacity not being exceeded by 25% or by the installation of balancing equipment for fuller utilisation of existing capacity, no approval should be necessary. We would th refore, suggest that the following cases be exempted from the applicability of section 21 of the Act:-

(i) Any substantial expansion in the value of assets as a consequence of replacement or moderisation of plant and machinery as approved by competent

authority notified by the Central Government, provided that by such expansion the licensed/approved capacity is not exceeded by 25% or more;

(ii) Any expansion which is affected for fuller utilisation of the existing licensed or approved capacity by the installation of balancing equipment as approved by competent authority notified by Central Government.

In order to enable the Government to have a watch on the number and extent of cases falling under the aforesaid exemptions and also to enable monitoring of data, we would recommend that the person or authority proposing to effect the expansion, though not required to obtain approval, would nevertheless be re-quired to furnish to Government, in the prescribed form, the details of such expansion. Such a provision would also afford an opportunity to the Government to examine the proposal independently with reference to the provisions of the Act and offer its views, if any, to the administrative Ministry concerned.

20.30 Setting up of new undertakings

Section 22 of the Act, as it stands at present, is not applicable to dominant undertakings covered by section 20(b) of the Act with the result that expansions of dominant under-takings by way of establishment of new inter-connected under-takings for the manufacture of the same type of goods in which they are dominant are not covered by this section. This is a serious lacuna because an undertaking which is domiant will be

allowed to concentrate more economic power without scrutiny by the Commission and the Central Government. It is accordingly suggested that the section may be modified suitably by the insertionof an Explanation to theeffect that the establishment of new inter-connected undertakings by the dominant undertakings for the manufacture of the same type of goods in which they are dominant undertakings for the manufacture of goods other than in which it is dominant, through the establishment of the new undertakings would continue to be outside the scope of the provisions of thissection.

20.31 An undertaking may diversify either at the existing place of its business or at some other place. At present the Department treats a case of diversification at the same place as under section 21 as a case of expansion and a case of diversification at a new place is dealt with under section 22 as that of a new undertaking. According to us, whenever diversification takes place, it is obviously a case of setting up a new undertaki g, and therefore, such a case should fall within section 22. This is to ensure that the scope and applicability of sections 21 and 22 are clearly demarcated to avoid any possible confusion. In order, however, to e xclude diverisification proposals to be effected within the existing licensed capacity or by the manufacture of new products through the utilisation of waste products or bye-products by the installation of balancing equipment, a new sub-section may be inserted granting statutory exemptions in the following

types of cases (this is similar to such exemption suggested in an earlier paragraph in relation to section 21):-

(a) Manufacture of new article(s) by way of diversification within the overall licenced/approved capacity through the installation of balancing equipment as approved by a competent authority notified by the Central Government; or

(b) Manufacture of new articles by utilising waste product/bye-products with the installation by balancing equipment as approved by a competent authority notified by the Central Government

As in the case of section 21, it would also be desirable to provide that theperson or authority proposing to establish a new undertaking coming within the scope of the above mentioned exempted categories shall furnish to Government in the prescribed from the details of such new undertakings.

20.32 Sub-section(4) of section 23 provides that where an undertaking, to which Part A of Chapter III of the Act applies, proposes to acquire by purchase, takeover or otherwise, the whole or part of an undertaking, such a party shall apply to the Central Government before giving effect to the proposal. We feel that the expression 'or otherwise' used in this sub-section may be illustrated by giving some specific instances like, lease, licence or mortgage as well. These words may, therefore, be added in the sub-section after the words 'or otherwise'. It has been brought to our notice

that some doubts have arisen with regard to the applicability of the provisions of section 23(4) of theAct in which the acquisition is proposed to be effected by purchase of shares of an undertaking. It has also been represented that in order to fall within the scope of this section, there sho-uld be acquisition of at least 51% of equity shares by such party. In our view, this is not a correct interpretation. We feel that this provision covers the cases of acquisition by purchase of shares even if the purchase is less than 51%. In the circumstances it will be proper to put the matter beyond any doubt and we recommend tha t the position may be clarified by inserting an Explanation below section 23(4) on the following lines:-

"Explanation

For the purposes of this sub-section and the (proposed) sub-section(5), 'acquisition' includes purchase of shares of an undertaking which would carry the right to exercise, or control the exercise of, 25% or more of the voting power at ageneral meeting of the undertaking which is proposed to be acquired.

In computing 25% referred to hereinabove, the shares, if any, already held by the purchaser, or shares in which he has beneficial interest or to which he is beneficially entitled, shall be taken into account".

The present sub-section (4) of section 23 has ina-dvertently omitted to empower the Central Government to pass orders approving

or disapproving the proposal though such a power is implied by virtue of the provisions in sub-section(5). We, therefore feel that sub-section (4) should be further amplified by the addition of the following words at the end:-

"The Central Government,or the Commission, as the case may be, may, if it is satisfied that it is expedient in the public interest to do so, accord approval to the said proposal on such terms and conditions as it thinks fit".

20.33 Sub-section (8) provides for a proposal of purchase or takeover of an undertaking to which Part A applies not being effect to unless it is accorded approval by the Central Government. This contemplates a situation which is the reverse of sub-section (4) i.e. an undertaking to which this Part applies being acquired rather than the undertaking to which the Part applies acquiring someother undertaking as covered by sub-section (4). But there is no further mechanics given of what procedure is to be followed in the case of an acquisition under sub-section (8). Presumably for this reason, some confusion has arisen seeking to give an interpretation that sub-section (8) has to be related back to sub-section (8) is clear enough; it relates to a situation where there is a proposal to acquire an undertaking to which Part A applies and not to a situation involving the acquisition by an undertaking to which the Part A applies. In any case, we feel that it would be proper if this matter were clarified. We see no logic to exempt such a case which relates to the purchase or takeover

of an undertaking to which Part A applies. We, therefore, feel that sub-section (8) should be reworded so as to provide that where a proposal is to acquire by purchase, takeover or lease or licence or mortgage or otherwise an undertaking to which Part A of Chapter III applies, the proposal would require an application to be submitted to the Central Government for obtaining its approval before giving effect of such a proposal. This is on the same lines as the existing sub-section (4). Consequently, sub section (8) as recommended to be reworded as above, would become sub-section (5) and the existing sub-sections (5), (6) and (7) would be re-numbered as sub-sections (6), (7) and (8) respectively. A further consequential change would be required in the proposed numbered sub-sections (6) and (7) so as to include a reference to the sub-section (5) therein after the word 'sub-section (4)'.

20.34 Transfer of sections 108A to 108H of Companies Act, 1956 to MRTP Act.

While on this subject, we would refer to a suggestion made to us by various bodies in relation to sections 108A 108H of the Companies Act which were introduced by the Comapnies (Amendment) Act, 1974. It has been pointed out these sections related to the acquistion and transfer of shares of a body corporate owning any undertaking to which the provisions of Part A of Chapter III of the MRTP Act apply and that, therefore, the appropriate place for these provisions would be the MRTP Act rather than the Companies Act. There is considerable

force in this suggestion and we agree that the provisions of sections 108A to 108D, 108F and 108G should be brought over to the MRTP Act as sections 23A to 23F respectively. The provisions of section 108E which deal with time limit within which the approval of Central Government is to be accorded should be incorporated in section 30 of the Act as a new sub-section. Opportunity of being heard, as provided for in section 29 of the Act, will necessarily be given to all perssons, who are, or may be, interested in the matter, by the Central Government before passing any order under these provisions.

20.35 At present, approval of the Central Government under these sections of the Companies Act is required in respect of even trasfer of shar s from one constitutent within a group to another in the same group. It has been represented to us that such a requirement is superfluous as such transfer within the group does not lead to any further concentration of economic power of the group as no increase inthe holding of the group is involved. We feel that there is some justification in this view and would, therefore, recommend that a suitable provision be incorporated in the Act, while transferring them to the MRTP Act. The provision may be to the effect that nothing in these sections will affect the transfer of shares within the group from one constituent to another provided an intimation of the transfer is given to the Central Government within two months of effecting the transfer.

20.36 In the light of our earlier recommendations, particularly those relating to certain types of cases under sections 21, 22 and 23 of the Act which are henceforth to be compulsorily referred to the Commission to pass final orders in the cases inquired into by it, certain consequential changes in sections 21, 22 and 23 would also be necessary.

20.37 Registration of undertakings

Section 26 requires registration of an undertaking to which Part A of Chapter III of the Act is applicable. The wording in sections 21, 23 and 26, however, does not specify the person on whom the responsibility lies for getting the undertaking registered. In contrast to that section 22(2) clearly specifies that anyperson or authority intending to establish a new undertaking shall apply to theCentral Government, thus clearly placing the responsibility on the owner of the undertaking. We feel that this inadvertent abmiguous drafting in sections 21, 23 and 26 should be recti-fied and it should be clarified that it would be the responsi-bility of the owner of the undertaking to give notice to the Central Government under section 21 or for making an applicationto the Central Government under section 23 or for getting registration under section 26. This will require amendment in the said sections.

20.38 Section 28 of the MRTP Act lists out the matters which among other things, have to be considered both by the Central Government and, as the case may be, the Commission,

It has been suggested tothe Committee by some memorialists that the consideration of increase in production and development of economy should also be one of the factors to be taken into account. Though we feel that the matters already listed in section 28 are wide enough and cover the aforesaid aspects also, there can be no objection to spell out clearly that the approving authority shall also give consideration to the need for increase in production and development of economy. We accordingly recommend that the following sub-clause(f) may be added to section 28 after clause (g), viz:-

"(h) to maximise production of goods particularly of those not being produced within the country or which are in short supply".

20.39 **Opportunity to be given to parties**

Section 29 of the Act provides for an opportunity of being heard to be given by the Central Government to all persons interested in the proposal before passing final orders. There is, however no mention of the requirement for the Commission to give such an opportunity to parties interested in the matter though the Commission has framed detailed regulations in pursua of which such hearing is being given. As we are suggesting that the Commission should be empowered to inquire and finally dispose of matters not in an advisory capacity but as the final adjudicative authority, we recommend that section 29 should be amended by adding the words "or as the case may be, the Commission" after the words "Central Government" and "Government" in the said section.

NOTE OF DISSENT BY SHRI K.K. ROY

CHAPTER XX Concentration of Economic Power:

In its schematic order, the MRTP Act envisages regulation of diversification by large size undertakings (having assets of rupees twenty crores or more either singly or together with inter-connected undertakings) and furthery expansion of dominant undertakings (having a market share of one-third or more either singly or together with interconnected undertakings) in the same lines in which they are dominant. As the law stands at present, the Act does not prohibit expansion in the existing activities by a large size undertakings which can not only corner more and more of the economic resources of the community by augmentation of productive facilities but also increase its market share without any limit to long as the augmentation of the facilities is made in the existing line of activity thus, giving rise to a higher share of market power to the undertakings. This is not only undesirable but is an obvious anomaly which had crept in the Act as long as the undertaking is required to obtain a licence for expansion of its existing activities under the Industries (Development and Regulation) Act, 1951 (section 13), the provisions of the MRTP Act would not apply unless, of course, it is shown that the large size undertaking is also a dominant undertaking at the time of applying for a licence for expansion under the Industries (Development and Regulation) Act, 1951. The present provisions of the Act would thus appear to operate as follows:-

(1) An undertaking, however small, may not be allowed to expand if its own production together with production of its inter-connected undertakings constitutes one-third or more of the country's total production. While this restriction is clearly understandable, the present section 21 (4) which permits a large size undertaking, which is not at the moment dominant, to grow beyond any proportions and dwarf with impunity all other undertakings in the country producing the same goods is opposed to this understanding and is inconsistent with the principle of preventing concentration of economic power, especially by those in a position to do so.

(2) A dominant undertaking can make an outright purchase of the entire factory of another company or firm producing the same goods as the dominant undertaking, expand its own market share and yet go out of the purview of the Act by vitrue of provisions of section 23(4)(a) which states that the restriction relating to acquisition of an undertaking would apply only if such acquisition results in the creation of an undertaking would apply only if such acquisition results in the creation of an undertaking to which the Act applies. Since the purchase of the factory of another company or firm by a dominant undertaking does not result in the creation of an undertaking to which Part A of Chapter III applies, the dominant undertaking concerned would be in a position to increase its own market power without coming within the

mischief of any of the provisions of the Act. Even so, the present provisions of section 21, sub-section (1), which uses the words proposes to substantially expand ... in any other manner' could probably be stretched to bring the act of acquisition just illustrated within the ambit of section 21 - although the matter is not free from doubt because of the fact that sub-section (1) of section 21 starts with the words subject to the provisions of section 23'. In future the question of applying the provisions of section 21 to the case of acquisition of a factory by outright purchase would be clearly out of question. Nor would section 22 apply in view of the fact that the applicability of that section is limited to large size undertakings proposing to diversify in a different field.

In the light of my understanding of the present provisions as well as the recommendations made in the Report, I strongly feel that once the existence of economic power can be identified as operating to put greater market power and control over economic resources in the hands of any undertakings, suitable provisions should be made in the Act to regulate the resulting concentration. By its very size, large companies are able to exert considerable markt power even though its production in particular item of goods may not have substantial market share at a particular moment. But then the loophole in the Act which enables such large companies to grow bigger both in size and in market operation at one sweep must be plugged. I have not

been able to understand the reasoning given in the Report for retaining the existing provisions of sub-section (4) of section 21 that the whole question of retention or deletion of sub-section (4) of section 21 is a matter of reconciling administrative difficulties resulting from different classification of goods being followed by two Ministries of the Government. In my view, great economic significance attaches to this question.

It has been recently stated in Parliament by the Minister of Industries that the top 20 large industrial houses have increased their assets by more than 50% Although it has been explained by some people that the present inflation is a cause of such expansion of assets, by more than 50% Although it has been explained by some people that the present inflation is a cause of such expansion of assets, it is not the whole truth. One of the ways by which large industrial houses have increased their economic power is through the operation of section 21(4).

I therefore, recommend that both section 21(4) and clause (a) of sub-section (4) of section 23 should be deleted from the Act. I would further recommend that the expression 'subject to the provisions of section 23' occurring in the beginning of section 21(1) be also deleted.

Conclusion:

I am confining myself in conclusion to a point of importance arising out of one of the recommendations of the Report in Chapter XIV dealing with Government companies. It has now been recommended that provision should be made to the effect that the investigation procedure need not be made inapplicable to Government companies as the notification issued by the Central Government seeks to provide in this behalf. I cannot bring myself to accept this amendment. It will be not only unwarranted but also uncalled for because the provisions of investigation under sections 235 to 237 of the Companies Act are applicable only in special circumstances such as defrauding of creditors, carrying on the business of the company by its management in a manner oppressive of any of its members or where the management have been guilty of misfeasance or other misconduct towards the company. Government has sufficient machinery of its own to look into these aspects as far as Government companies are concerned and it is not at all necessary to make the provisions relating to investigation being made applicable to these companies.

Sd/-

(K.K. Ray)

New Delhi,
Dated August 22, 1978.

Source: Report of the High-Powered Expert Committee on companies & Mrtp Acts, August, 1978. pp.314-314.

CONCENTRATION IN INDUSTRIAL SECTOR : ACHILLES' HEEL OF LAND REFORMS.*

Kamal Nayan Kabra.

There are many indicators to show that the state-sponsored process of socio-economic development, started in India in the early 1950's, has been aground since the middle of the last decade.

In the many hypotheses which have been forwarded to explain this phenomenon, the crucial role has been attributed to worsening concentration of land ownership through the failure of agrarian reforms and rural institutional change, which has limited the growth of markets for industrial and agricultural commodities, restricted supply of agricultural raw materials, and has restricted an overall improvement of agricultural productivity and reduction of inequalities in economic and social spheres. While the crucial role in this context is of the failures of land reform programmes, the emphasis has generally been placed on politico-administrative measures, whose implementation is, impeded by the absence of a real and effective "political will" and back of organisation on the part of the poor peasants, or the potential beneficiaries.

However, the land ownership pattern is such that the problem when posed in this form, presents the following dilemma: land redistribution is needed in order to reduce the concentration of land ownership. However, the power entailed by concentrated land ownership jeopardises effective implementation of land distribution programmes. Thus, any land reforms, which leave the present power equations at the grass roots level and at the top basically unchanged, cannot ensure effective deconcentration of land ownership.

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*Synopsis of Author's Working Paper No.2 (Land Reforms and Industrialisation: Some Institutional Linkages and their Implications) of the Public Policy and Planning Division of the Indian Institute of Public Administration, New Delhi.

The contention of this note is that a policy package which can (a) critically alter the modus operandi of the socio-economic processes and thus reduce the power exercised by concentrated land ownership and (b) develop the non-agricultural sector and, hence, reduce the dependence of the rural poor on the landed interests, can provide the essential preconditions for successful implementation of land reforms, without involving a thorough prior restructuring of the social and political set-up.

I

The extent of importance and power attached to land can be appreciated by the fact that the proportion of the workforce engaged in agriculture and allied activities, since 1921, has remained practically unchanged at about 73%. This would imply an absolute increase in the number of persons engaged in agriculture of about 80 million. As a result, pressure on land has steadily been increasing, resulting in a lower per capita availability of land. This decline in per capita availability becomes even more significant when it is seen in the light of an absolute increase in the area under cultivation.

For this large and growing proportion of agricultural labourers, the landlord is the major source of work and income. There exists a strong patron-client relationship between the landowners and the rural poor; the latter being used to generate a surplus product by the former.

Simultaneously, there is observed an increasing skewedness in the distribution of land ownership, implying a big increase in the proportion of landless agricultural labourers between 1951-1971. Moreover, this was also a

period of massive investments in agriculture - in the form of irrigation, community development, credit provision, new technology, price-support policies, and a big increase in the urban-industrial demand for agricultural products owing to unprecedented levels of investment in industrial development. All this increased the profitability of agriculture and coupled with a highly concentrated land-ownership led to the emergence and consolidation of a class of rich and big farmers.

Thus, as a result of these policies of agricultural development, the rural sector has become more polarised and sharply differentiated with the small and marginal farmers (owning upto two hectares of land) forming the lowest end of the spectrum, while those owing 4 hectares or more constituting the top of the pyramid.

This class structure, which becomes a dominant characteristic of the entire network of social relations in the rural agricultural sector, has a significant impact on the way the 'market' penetrates the rural economy. The rural poor necessarily have lower bargaining strength when compared to the bigger landlords, on account of their lower economic and asset-holding positions leading to unfavourable terms governing transactions in these markets. Reinforcing this is a social structure wherein the lower strata depend on the rural rich for work opportunities and for credit during drought; and the non-availability of past savings for the small landowners, which forces them to market their output immediately after harvest and gives them unfavourable prices.

II

Given such power in the hands of the landowners and the resulting dependence of the rural poor on those who wield the levers of power in employment, finance and marketing, the

legal-administrative processes for effecting redistribution of land are of little use. Nor is it possible for the rural poor to mobilize themselves successfully and effectively, and thus intervene in the legal processes.

However, since every group can mobilize itself, the essential task in mobilization for agrarian restructuring is to identify the ways and means for meeting the challenge of counter-mobilization by the landed interests.

The essential preconditions for changing the pattern of resource (land) ownership through mobilization then requires a situation of economic development which (a) provides the poorer sections with alternative sources of employment and more stable incomes and (b) increases the profitability and stability of farm operations, and hence the farm surplus, and thus induces and enables the landholders to go in for non-farm investments. The former will imply a structural shift in the occupational pattern away from agriculture and allied activities and thus reduce the dependence of the rural poor on the bigger landlords. The latter, if accompanied by expansion of non-farm employment, will give the landlord fewer opportunities to expand their capital through agricultural operations and thus weaken the vertical social and economic links characteristic of the Indian rural sector.

This process of social development brings into the open many conflicts of interest between the bigger landowners and the rural poor, and more important, between the big capitalists of the urban sector and the poor of the rural sector, as the process of capitalist production starts operating in the farm sector. The horizontal links among the masses can, then, be strengthened, giving birth to cognitive, institutional and political preconditions for effective mobilization and counter-mobilization.

Thus, any advancement in the direction of implementation of land reforms must rest on socio-economic development, which by strengthening intersectoral linkages, reduces the direct and immediate dependence of the rural poor on the rural rich and thus gives the former the will and capacity to collectively move for the realization of their long-term goals.

III

Counter-mobilization by the bigger landholding classes against any land redistribution programme is likely to be both sizeable and effective. And if it were to succeed, it would imply either non-existence of any other power-grouping in the society or an alliance between the landed interests and other power centres - mainly with the industrial capitalist class. Thus in the process of implementing land redistribution programmes, we must assume on the part of the class of industrialists either indifference or an alliance with the landed or the landless class.

At a theoretical and programmatic level, the dominant industrial class may accept land reforms as a national programme for the following reasons : (a) it will expand the rural market for industrial commodities by leading to greater equality of income and employment distribution (b) it will increase supply of raw materials and labor to the urban sector (c) by stimulating agricultural development, it will raise the rate of capital accumulation (d) agrarian reform may make a substantial contribution to the problem of productive absorption of our vast and growing surplus manpower, thus relieving the burden on the industrial sector.

However, the poor implementation of land reforms gives rise to doubt regarding the existance and strength of the

commitment to land reforms on the part of the industrialist classes.

The counter-pressures at work are many.

(1) To obtain any kind of active support from the industrialists, the programme of land reforms should have a clear-cut thrust regarding the kind of properly and production relations it is going to encourage. However, the land reform policies may tend to show divergent thrusts and orientation. These programmes may, e.g., be anti-feudal and may encourage capitalist relations in agriculture - e.g. by distributing the land of feudal absentee landlords over large self-cultivated scientifically managed farms growing commercial crops.

(2) Alternatively, the anti-feudal programme may, at the same time, leave a pro-small, peasant farming, and hence an anti-capitalist, anti-centralising thrust.

(3) The linkage between agrarian restructuring and industrial development set up at an 'a priori' level is based on a number of implicit assumptions, which do not always obtain in countries like India. The impact of increased employment and output arising from the introduction of a small farm economy and land reforms may be felt more in the form of increased consumption of food (due to high income - elasticity for food etc.) rather than in the form of larger flows of marketed surplus to the non-agricultural sector. This is particularly so, given the below subsistence wage rate in the agricultural sector.

It may be argued, on the contrary, that increased production will lead, not only to a rise in the consumption

level of the rural poor, but also to a commernsurate improvement in food production. However, the time lag in the movement of wages and food output may cause a set-back to the rates of return on industrial investment.

(4) The existence of a large army of semi-employed agricultural labourers and small and marginal farmers with their family, and caste-based social organisation becomes a source of cheap labor for the industrial capitalist class, which a programme like that of land redistribution is likely to disturb.

Thus an effective and operational commonality of interests linking the rural poor's wellbeing with the behaviour pattern of the industrial capitalist is not so easily perceptible - particularly for the illiterate and inarticulate rural poor.

Thus, we find a vacillating attitude of the industrial Capitalists towards rural restructuring and, on the other hand, absence of any alliance between the rural and urban poor in the framework of social production relations. This viewed in the context of effective counter-mobilization by the landed interests against implementation of programmes of land redistribution, frustrates any attempt at rural restructuring.

IV

The only possible alternative to agrarian restructuring itself must be one that would lead to the growth of employment in such proportions so as to reduce the dominance of buyers in the rural labour market. Such an expansion of non-agricultural employment requires a steady expansion of non

landlord based employment of un-and-under-employed labor as a necessary condition. The magnitude of the employment must be such that not only the entire natural increase in non-agricultural workforce is absorbed in that sector itself, but it also draws off an increasing magnitude of the workforce presently engaged in agriculture.

This does not mean that there is no scope left for increased productive absorption of labor in agriculture. But since capitalist farming tends to have a labor-saving bias, an increase in the demand for labor in agriculture presupposes the increased importance of water and biology based agricultural technology applied to a small farm economy. The latter is basically dependant on a remoulding of existing land relations which have been seen to be caught in a vicious circle of socio-economic forces. Thus, the major step has to be in the form of increased non-agricultural employment.

This argument also does not intend to deny the role of rural works and employment programmes. Only, given the present power balance, it is unlikely that a really significant amount of resources can be allocated for such projects, and there is always the fear of leakages of the resources so allocated, away from the intended beneficiaries, to line the pockets of the rural rich. Thus, despite their undoubted utility, they cannot become a substitute for non-agricultural employments particularly over the long run.

Thus, the link between the growth, expansion and structure of the non-agrarian sector and the development of the agrarian sector is basic to a process of agrarian restructuring. However, since the empirical facts of non-implementation of land redistribution laws are sought to be rectified through political organizational factors, the role of an overall pattern of development in general, and of

industrialization in particular, has often been underplayed or taken as given at its present rate and pattern of development.

Historically, there is no denying the fact that in countries like India, industrialization and extension of commerce have not significantly contributed to the absorption of surplus rural manpower in the non-agricultural sector. But, this is essentially an outcome of a specific historical set of conditions including that of the institutional matrix which is characteristic of the country.

The successful experience of Japan in affecting significant land reforms is often cited to hold many lessons for India, particularly in the form of involvement of the potentially beneficiary peasants and the role of strong political support for the programme of agrarian restructuring. This narrow view overlooks the fact that this has been possible only due to the rapid development of industry and non-agricultural sectors, which were changing the man-land ratio conducive to greater independence on the part of the Japanese peasants. In fact, the percentage of the Japanese workforce dependent on agriculture and allied activities fell from 43.2% in 1940 to 19.7% in 1970.

V

In India, the proportion of the workforce engaged in non-agricultural activities has remained unchanged at 73% since 1921. This means that the non-agricultural employment has failed to draw workers away from land. Further, the growth of non-agricultural sector employment has been so slow that it falls short of even the natural increase in non-agricultural population. And the share of manufacturing employment in the total non-farm employment has also been declining.

Between 1961-71, taking account of the increase in workforce and the increase in non-agricultural public and private sector employment, an estimated 46.59 lakhs seems to be the magnitude of the throw-back from non-agriculture to agriculture and other unorganised informal activities. Similarly, the throwback from non-agriculture during 1962-76 is estimated at 78.75 lakhs.

The insufficient rate of growth of non-agricultural work opportunities, resulting in the unabated dependence of the rural poor and undiminished power of landholding may well conspire to generate a political will which decides to decree that whatever returns of surplus land have become available so for define all the surplus land available for redistribution. Hence land redistribution programme may officially be termed as a closed chapter, having been proved unproductive, if not counter-productive.

VI

The pattern of ownership and control of assets in the non-agricultural sector, though rarely highlighted, has an important significance in terms of employment generation. Though the State sector plays an important part in India's non-agricultural sector, its activities are limited in scope and coverage, and thus we need to concern ourselves mainly with the private non-agricultural sector, and with the corporate sector in particular which can be considered fully representative of the organised non-agricultural sector.

The corporate sector is dominated by large industrial houses and estimates on the growth of their assets shows a highly skewed distribution of net assets in this sector. While the top 20% compani s hold about 2/3rds of the total

assets, the lower 80% of the companies account for about 1/3rd of the total assets only.

A high degree of concentration of assets in the non-agricultural sector in general and the industrial sector in particular is related with some other aspects of the socio-economic relations characteristic of the non-agricultural sector. The narrow commanding heights of the corporate sector have a sharply defined regional, communal and cast complexion. The market relations are mainly characterized by an oligopolistic - monopolistic form of dominance. And the role of Industrial capital in India is mainly the legacy of a colonial economic policy and a post-colonial foreign capital and technological import policy, accompanied by protected domestic markets for State-sponsored growth of import-substituting industries. This also defines the mutual accomodation which has developed between Indian and foreign capital.

Further, the savings rate displayed by the non-agricultural sector could not have led to appreciable additional employment. However, the corporate sector has been investing and using a multiple of its savings. This they have been doing mainly with the help of borrowings from central and State governments, public financial institutions, and the household sector. As a result, corporate investments vary from 10-13% of gross domestic capital formation, while its share in domestic savings varies between 5% to 1% and less.

The product-mix of the Indian industries has shown a bias in recent years towards durable consumers goods and basic and capital goods industries, indicating a higher capital labor ratio. In fact, fixed capital per employee in the factory sector is such that an investment of 1 lakh rupees would hardly suffice for employment of four person, while in the small sector the same investment can easily employ over 200 persons.

Thus, the high capital intensity, saving and investment behaviour, product-mix, and technical, financial collaboration bias in the organised factory sector puts limitations on the extent to which additional workforce can be accommodated in this sector. Hence introduction of employment expansion as a basic and integral part of the objectives of these processes requires the replacement of the typical motivational pattern of a private enterprise market economy by some socially responsive organisational ownership form.

VII

Thus, on account of only cursorily taking note of the relationship between agrarian restructuring and the pace and pattern of development in the non-agricultural sector, particularly with respect to the socio-economic relations obtaining in both these sectors and their institutional linkages, the mechanism and preconditions for effective social mobilization for ensuring agrarian restructuring in the country were not recognized. This led to an over-emphasis on the role of legal-administrative measures to such an extent that it was expected that despite the continued operation of the present power relationships at the grassroot level, there will be enough will and capacity at the apex level to organise a movement of the rural poor for affecting redistribution of economic assets in favour of the presently disposed classes. In much of literature and official documents, it is not perceived that the continued dominance at the lower level by the rich can hardly create conditions in which the "top" can successfully intervene against the interests of the power-base, except when one is visualizing a prior political revolution.

What is needed, then, is a massive expansion of work and income opportunities, in the more centralized and dynamic non-agricultural sector, to enable the rural poor to acquire a minimum degree of independence in their social existence. The introduction of measures to break monopolistic concentration in the non-agricultural sectors then becomes the first task for initiating the chain reaction for Indian social and economic development, and the possibility of the landed interests joining in the counter-mobilization by the industrial capital is unlikely as the former is already peeved at the excessive favours shown to the latter, in the form of State support and direct transfer of funds and savings to large industrial groups. Such state support to the industrial capitalist class originates mainly from the effective use of economic power by the big business and its associates to carry political processes, planning, policy and implementation in their favour.

Thus a programme of deconcentration of private industrial and corporate assets and the transfer of control over productive assets from the large industrial houses to the State to be used for planned social goods remains the only alternative to removing the institutional and technological constraints, for a phenomenal increase in employment to ensue.

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II

Given such power in the hands of the landowners and the resulting dependence of the rural poor on those who wield the levers of power in employment, finance and marketing, the

legal-administrative processes for effecting redistribution of land are of little use. Nor is it possible for the rural poor to mobilize themselves successfully and effectively, and thus intervene in the legal processes.

However, since every group can mobilize itself, the essential task in mobilization for agrarian restructuring is to identify the ways and means for meeting the challenge of counter-mobilization by the landed interests.

The essential preconditions for changing the pattern of resource (land) ownership through mobilization then requires a situation of economic development which (a) provides the poorer sections with alternative sources of employment and more stable incomes and (b) increases the profitability and stability of farm operations, and hence the farm surplus, and thus induces and enables the landholders to go in for non-farm investments. The former will imply a structural shift in the occupational pattern away from agriculture and allied activities and thus reduce the dependence of the rural poor on the bigger landlords. The latter, if accompanied by expansion of non-farm employment, will give the landlord fewer opportunities to expand their capital through agricultural operations and thus weaken the vertical social and economic links characteristic of the Indian rural sector.

This process of social development brings into the open many conflicts of interest between the bigger landowners and the rural poor, and more important, between the big capitalists of the urban sector and the poor of the rural sector, as the process of capitalist production starts operating in the farm sector. The horizontal links among the masses can, then, be strengthened, giving birth to cognitive, institutional and political preconditions for effective mobilization and counter-mobilization.

Thus, any advancement in the direction of implementation of land reforms must rest on socio-economic development, which by strengthening intersectoral linkages, reduces the direct and immediate dependence of the rural poor on the rural rich and thus gives the former the will and capacity to collectively move for the realization of their long-term goals.

III

Counter-mobilization by the bigger landholding classes against any land redistribution programme is likely to be both sizeable and effective. And if it were to succeed, it would imply either non-existence of any other power-grouping in the society or an alliance between the landed interests and other power centres - mainly with the industrial capitalist class. Thus in the process of implementing land redistribution programmes, we must assume on the part of the class of industrialists either indifference or an alliance with the landed or the landless class.

At a theoretical and programmatic level, the dominant industrial class may accept land reforms as a national programme for the following reasons : (a) it will expand the rural market for industrial commodities by leading to greater equality of income and employment distribution (b) it will increase supply of raw materials and labor to the urban sector (c) by stimulating agricultural development, it will raise the rate of capital accumulation (d) agrarian reform may make a substantial contribution to the problem of productive absorption of our vast and growing surplus manpower, thus relieving the burden on the industrial sector.

However, the poor implementation of land reforms gives rise to doubt regarding the existance and strength of the

commitment to land reforms on the part of the industrialist classes.

The counter-pressures at work are many.

(1) To obtain any kind of active support from the industrialists, the programme of land reforms should have a clear-cut thrust regarding the kind of properly and production relations it is going to encourage. However, the land reform policies may tend to show divergent thrusts and orientation. These programmes may, e.g., be anti-feudal and may encourage capitalist relations in agriculture - e.g. by distributing the land of feudal absentee landlords over large self-cultivated scientifically managed farms growing commercial crops.

(2) Alternatively, the anti-feudal programme may, at the same time, leave a pro-small, peasant farming, and hence an anti-capitalist, anti-centralising thrust.

(3) The linkage between agrarian restructuring and industrial development set up at an 'a priori' level is based on a number of implicit assumptions, which do not always obtain in countries like India. The impact of increased employment and output arising from the introduction of a small farm economy and land reforms may be felt more in the form of increased consumption of food (due to high income - elasticity for food etc.) rather than in the form of larger flows of marketed surplus to the non-agricultural sector. This is particularly so, given the below subsistence wage rate in the agricultural sector.

It may be argued, on the contrary, that increased production will lead, not only to a rise in the consumption

level of the rural poor, but also to a commensurate improvement in food production. However, the time lag in the movement of wages and food output may cause a set-back to the rates of return on industrial investment.

(4) The existence of a large army of semi-employed agricultural labourers and small and marginal farmers with their family, and caste-based social organisation becomes a source of cheap labor for the industrial capitalist class, which a programme like that of land redistribution is likely to disturb.

Thus an effective and operational commonality of interests linking the rural poor's wellbeing with the behaviour pattern of the industrial capitalist is not so easily perceptible - particularly for the illiterate and inarticulate rural poor.

Thus, we find a vacillating attitude of the industrial Capitalists towards rural restructuring and, on the other hand, absence of any alliance between the rural and urban poor in the framework of social production relations. This viewed in the context of effective counter-mobilization by the landed interests against implementation of programmes of land redistribution, frustrates any attempt at rural restructuring.

IV

The only possible alternative to agrarian restructuring itself must be one that would lead to the growth of employment in such proportions so as to reduce the dominance of buyers in the rural labour market. Such an expansion of non-agricultural employment requires a steady expansion of non

landlord based employment of un-and-under-employed labor as a necessary condition. The magnitude of the employment must be such that not only the entire natural increase in non-agricultural workforce is absorbed in that sector itself, but it also draws off an increasing magnitude of the workforce presently engaged in agriculture.

This does not mean that there is no scope left for increased productive absorption of labor in agriculture. But since capitalist farming tends to have a labor-saving bias, an increase in the demand for labor in agriculture pre-supposes the increased importance of water and biology based agricultural technology applied to a small farm economy. The latter is basically dependant on a remoulding of existing land relations which have been seen to be caught in a vicious circle of socio-economic forces. Thus, the major step has to be in the form of increased non-agricultural employment.

This argument also does not intend to deny the role of rural works and employment programmes. Only, given the present power balance, it is unlikely that a really significant amount of resources can be allocated for such projects, and there is always the fear of leakages of the resources so allocated, away from the intended beneficiaries, to line the pockets of the rural rich. Thus, despite their undoubted utility, they cannot become a substitute for non-agricultural employments particularly over the long run.

Thus, the link between the growth, expansion and structure of the non-agrarian sector and the development of the agrarian sector is basic to a process of agrarian restructuring. However, since the empirical facts of non-implementation of land redistribution laws are sought to be rectified through political organizational factors, the role of an overall pattern of development in general, and of

industrialization in particular, has often been underplayed or taken as given at its present rate and pattern of development.

Historically, there is no denying the fact that in countries like India, industrialization and extension of commerce have not significantly contributed to the absorption of surplus rural manpower in the non-agricultural sector. But, this is essentially an outcome of a specific historical set of conditions including that of the institutional matrix which is characteristic of the country.

The successful experience of Japan in affecting significant land reforms is often cited to hold many lessons for India, particularly in the form of involvement of the potentially beneficiary peasants and the role of strong political support for the programme of agrarian restructuring. This narrow view overlooks the fact that this has been possible only due to the rapid development of industry and non-agricultural sectors, which were changing the man-land ratio conducive to greater independence on the part of the Japanese peasants. In fact, the percentage of the Japanese workforce dependent on agriculture and allied activities fell from 43.2% in 1940 to 19.7% in 1970.

V

In India, the proportion of the workforce engaged in non-agricultural activities has remained unchanged at 73% since 1921. This means that the non-agricultural employment has failed to draw workers away from land. Further, the growth of non-agricultural sector employment has been so slow that it falls short of even the natural increase in non-agricultural population. And the share of manufacturing employment in the total non-farm employment has also been declining.

Between 1961-71, taking account of the increase in workforce and the increase in non-agricultural public and private sector employment, an estimated 46.59 lakhs seems to be the magnitude of the throw-back from non-agriculture to agriculture and other unorganised informal activities. Similarly, the throwback from non-agriculture during 1962-76 is estimated at 78.75 lakhs.

The insufficient rate of growth of non-agricultural work opportunities, resulting in the unabated dependence of the rural poor and undiminished power of landholding may well conspire to generate a political will which decides to decree that whatever returns of surplus land have become available so for define all the surplus land available for redistribution. Hence land redistribution programme may officially be termed as a closed chapter, having been proved unproductive, if not counter-productive.

VI

The pattern of ownership and control of assets in the non-agricultural sector, though rarely highlighted, has an important significance in terms of employment generation. Though the State sector plays an important part in India's non-agricultural sector, its activities are limited in scope and coverage, and thus we need to concern ourselves mainly with the private non-agricultural sector, and with the corporate sector in particular which can be considered fully representative of the organised non-agricultural sector.

The corporate sector is dominated by large industrial houses and estimates on the growth of their assets shows a highly skewed distribution of net assets in this sector. While the top 20% companies hold about 2/3rds of the total

assets, the lower 80% of the companies account for about 1/3rd of the total assets only.

A high degree of concentration of assets in the non-agricultural sector in general and the industrial sector in particular is related with some other aspects of the socio-economic relations characteristic of the non-agricultural sector. The narrow commanding heights of the corporate sector have a sharply defined regional, communal and cast complexion. The market relations are mainly characterized by an oligopolistic - monopolistic form of dominance. And the role of Industrial capital in India is mainly the legacy of a colonial economic policy and a post-colonial foreign capital and technological import policy, accompanied by protected domestic markets for State-sponsored growth of import-substituting industries. This also defines the mutual accomodation which has developed between Indian and foreign capital.

Further, the savings rate displayed by the non-agricultural sector could not have led to appreciable additional employment. However, the corporate sector has been investing and using a multiple of its savings. This they have been doing mainly with the help of borrowings from central and State governments, public financial institutions, and the household sector. As a result, corporate investments vary from 10-13% of gross domestic capital formation, while its share in domestic savings varies between 5% to 1% and less.

The product-mix of the Indian industries has shown a bias in recent years towards durable consumers goods and basic and capital goods industries, indicating a higher capital labor ratio. In fact, fixed capital per employee in the factory sector is such that an investment of 1 lakh rupees would hardly suffice for employment of four person, while in the small sector the same investment can easily employ over 200 persons.

Thus, the high capital intensity, saving and investment behaviour, product-mix, and technical, financial collaboration bias in the organised factory sector puts limitations on the extent to which additional workforce can be accommodated in this sector. Hence introduction of employment expansion as a basic and integral part of the objectives of these processes requires the replacement of the typical motivational pattern of a private enterprise market economy by some socially responsive organisational ownership form.

VII

Thus, on account of only cursorily taking note of the relationship between agrarian restructuring and the pace and pattern of development in the non-agricultural sector, particularly with respect to the socio-economic relations obtaining in both these sectors and their institutional linkages, the mechanism and preconditions for effective social mobilization for ensuring agrarian restructuring in the country were not recognized. This led to an over-emphasis on the role of legal-administrative measures to such an extent that it was expected that despite the continued operation of the present power relationships at the grassroot level, there will be enough will and capacity at the apex level to organise a movement of the rural poor for affecting redistribution of economic assets in favour of the presently dispossed classes. In much of literature and official documents, it is not perceived that the continued dominance at the lower level by the rich can hardly create conditions in which the "top" can successfully intervene against the interests of the power-base, except when one is visualizing a prior political revolution.

What is needed, then, is a massive expansion of work and income opportunities, in the more centralized and dynamic non-agricultural sector, to enable the rural poor to acquire a minimum degree of independence in their social existence. The introduction of measures to break monopolistic concentration in the non-agricultural sectors then becomes the first task for initiating the chain reaction for Indian social and economic development, and the possibility of the landed interests joining in the counter-mobilization by the industrial capital is unlikely as the former is already peeved at the excessive favours shown to the latter, in the form of State support and direct transfer of funds and savings to large industrial groups. Such state support to the industrial capitalist class originates mainly from the effective use of economic power by the big business and its associates to carry political processes, planning, policy and implementation in their favour.

Thus a programme of deconcentration of private industrial and corporate assets and the transfer of control over productive assets from the large industrial houses to the State to be used for planned social goods remains the only alternative to removing the institutional and technological constraints, for a phenomenal increase in employment to ensue.

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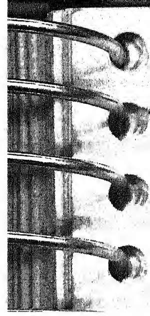

STATE CAPITALISM AND INDUSTRIAL DEVELOPMENT

With independence the demand for industrialisation became very strong in all developing countries of Asia. In industrialisation was seen the source of national strength, the chance of economic independence, the possibility of technological development leading to higher productive power and the end of a life of poverty, unemployment and degradation for the people and a source of high profit for the bourgeoisie. All classes therefore demanded rapid industrial development of their countries.

The national bourgeoisie, however, was very weak. Its capital stock was small, its power of taking risk very limited. Moreover, it could obtain a very high rate of return for its capital from trade, usury and rack-renting. Very few industries could yield such a high rate of return. The domestic market was small; the peasants had very little to spare to buy industrial goods. The foreign market was dominated by foreign multi-national corporations. The national bourgeoisie did not come forward to enter any area in which a high and safe return was not ensured. The state had to take the initiative, therefore, in many industries, particularly in industries which required heavy capital investment in which the risk of loss was high and gestation period was long. In other industries the state had to actively intervene in order to ensure a high rate of return by giving

subsidies, tax holidays, easy credit and other privileges and facilities.

The public enterprises undertaken by the state were set up not only in new industries in which private enterprises hesitated to enter but also in those which were taken over from the foreigners. Thus Indonesia nationalised all Dutch plantations and other enterprises. In Burma not only the British business but the business of all foreigners, including Indian and Chinese, were nationalised. In the Philippines, Thailand, Malayasia, Singapore and Pakistan, on the other hand, not only no foreign property was nationalised, but greater foreign participation was invited and foreign ownership and operation were given additional protection and privileges. In India foreign property and business were not nationalised except a few oil companies, but severe restrictions were imposed on their entry and operation. The attitude to foreign companies thus depended on the degree of opposition that the colonialists generated by their repressive policies among the nationalists. Thus the American and British imperialists gave up political power voluntarily in the hands of a section of the local bourgeoisie who were too eager to maintain a collaborative arrangement with the imperialists for joint exploitation of the countries resources and labour power. In Indonesia and Burma the imperialists were driven out after a bitter

fight so that the nationalist opposition was too strong against them which the imperialists. In India the bourgeoisie was able to make a compromise with the imperialists on terms not as expropriative as that of Indonesia and Burma but less favourable to the imperialists than that of the Malayasia, Pakistan, Philippines or Singapore.

The degree of state ownership with which the newly independent countries of Asia started thus depended on the specific political situation in each country, and in general on the intensity of anti-imperialist political consciousness that existed in the country. State ownership has often been indentified in these countries as socialism. This is far from the truth. State ownership, on the contrary, has been called for by the private industrialists themselves for their own class interest. State enterprises provided them with a market where they could seel at a high profit. They provided them with basic materials and services such as steel, coal and transportation at the subsidised price. In India particularly it was found that the prosperity of the private sector was dependent on the rate of public investment; whenever public investment declined the private sector faced a recession and a crisis. In most countries the public sector enterprises were working at a loss which was partly due to the high price paid by them for their purchases from the private sector. To this extent the loss of the public sector was the gain of the private sector.

State ownership and state capitalism thus is a form of industrial management needed by the weak and undeveloped capitalist class in the developing countries in the early stages of capitalist development. The bourgeoisie always dreams of the time when the initial phase of pionerring and production at a loss would be over and the public enterprises would be handed over to private businessman as was done in Japan and Turkey.

It has to be noted, however, that state capitalism contains within it the germs of socialist development. Whether the socialist germs will grow fully and develop into a fullfledged socialist economic system. Depends to a large extent on the level of political consciousness, unity and organisation of the working classes, the peasants, the poorer sections of the middle classes and the urban poor.

In chapter XIX (From Hierarchy to Stagnation) we have shown how in a hierarchical social structure, as prevails in Asia, capitalists, by increasing their share of the national income, limit their own market and produce stagnation. Most of the Asian countries are rapidly entering into this phase of development. The disproportional development between growth of the market and the growth of investment funds is imposing a severe restriction of further expansion of capitalist industries. This stagnation is pushing the bourgeoisie towards dictatorship where they are taking resort

to increasingly dictatorial methods for maintaining themselves in power, while at the same time the sectional battle between different types of the bourgeoisie is also becoming very acute. Simultaneously the frustration suffered by the urban working classes, the lower middle classes and the village poor due to the stagnation of the economy is reaching to new heights. To the extent these classes become politically conscious and articulate and can move together maintaining their unity, they can succeed in frustrating dictatorial designs of the bourgeoisie and force the leadership to move more and more towards a greater degree of state control of production and public ownership of enterprises.

The stagnation and the heavy losses incurred by the private sector also helps in expanding the public sector which takes over the "sick units" and bring them under public ownership and control. Once the management of public enterprises is professionalised and the units aregiven the required degree of autonomy, the expansion of the public sector becomes easier. The resistance offered by the bourgeoisie breaks down, not only because of the increase in the number of sick units that follow industrial stagnation but also because the argument of more efficient management by the private industries is proved false.

Thus the system of state capitalism has within it the germs both of capitalism and of socialism. Which of these will develop and which will wither away will depend on the

degree of political consciousness of the people and the degree of their unity against the growth of fascism in these countries.

The path of capitalist development followed so far by most of the developing countries since their independence has more or less exhausted today. The limitations of the internal market is imposing severe restrictions on further capitalistic development of these countries. The possibility of expanding into the foreign markets is also becoming more and more difficult. Because of the present day national and international market situation development can take place only by following the socialist path with the state sector continually expanding its role in national production. For, the imbalance between the rate of growth of capital accumulation and the rate of growth of the buying power of the people, which is the main cause of the crisis of capitalism, can be resolved by socialistic central planning alone and not by the market forces operating under an inequitable system of private ownership.

Adoption of the socialist path of development, however, is not easy. It requires above all a very high degree of political consciousness of the people who are oppressed by the capitalist system. Out of this political consciousness is borne the desire to work for society as a whole and not for individual aggrandisement. The growth of this consciousness leads to the formation of mass organisations which not only overcome the populist demands of improving the position of a section of the population at the cost of the whole, but which

enables the individual to transcend his individual shortperiod needs and indentify his selfinterest with the longperiod interest of the community. This level of social consciousness can come slowly and after a long period of training and through personal experience of the oppressed classes. The key to socialist path of development therefore lies in the development of political consciousness of the oppressed, their organisation and the quality of their leadership. All these three develop together, mutually reinforcing each other. As political consciousness, organisation and leadership delop, it becomes increasingly possible to substitute labour for capital and foreign exchange and even foreign technology. Selfsustained growth becomes a reality. Accumulation of capital does not destroy itself by restricting the market but expands simultaneously with the expansion of income, employment and the purchasing power of the people.

As the capitalist crisis deepends the national bourgeoisie becomes more and more dependent on foreign capitalists and multinational corporations and compromises the independence of the country offending the innate patriotism of the people. The bourgeois leadership shows its bankruptcy increasingly by its failure to tackle thereal problems of the country and by giving slogans that have very little

relevance to the problems of the people and, therefore, rouses very little enthusiasm among them. Their increasing isolation forces them to adopt more and more fascistic methods of government. This is the situation which offers the greatest opportunity to the oppressed classes to get organised and to force the country to change its course of development, taking the road to socialism. Such a historic turn can be taken only if all the oppressed sections of the population can be united and the bourgeoisie can be isolated.

FROM HIERARCHY TO STAGNATION

Capitalism has an inherent tendency to increase the inequality of income and wealth. The profit motive continually drives the capitalist class to introduce more and more machines in the production process. The share of wages and salaries in the total output as a result tends to decline while the share of property incomes, such as profits, interest and rent, increases.

It is not easy to come across statistical data in support of this conclusion. The general belief on the contrary is that the share of wages and salaries in the total output remains constant. This belief has been generated largely by the work of Cobb-Douglas whose production function based on the assumption of constant ratio of wages to output is used very extensively by economists even in the developing countries. Cobb-Douglas functions were, however, derived from data based on short-period observations while the tendency we are discussing here is a very long-period phenomenon. Klein and Kosobud computed such a long-period series of the ratio of earned income to net national product for the United States for the period 1900-53.[1] These ratios indicate a definite downward trend during 1900-30 as shown in the chart on page 273. From 1930 up to the end of second world war the ratios show an upward trend. It is possible that after the 1929 depression and during the New-Deal era the declining trend in the ratio of wage income was halted in the United States by a combination of factors, such as unemployment relief, oldage pension, minimum-wage legislation, growth of trade unions, higher taxation of nonwage incomes, higher public expenditure on slum clearance, education, healt-h services,etc., <u>and above all</u> by the reduction in the capital stock through

1. "Some Econometrics of Growth", Quarterly Journal of Economics, Vol LXXV, No2 (May, 1961), pp 183-84

disuse during the depression. The downward trend can be seen to have reappeared in the postwar years.

In developing countries the hierarchical social structure and the vestiges of medieval economic relations further intensifies this inequality. The continual destruction of rural industries due to penetration of markets by factory products, the heavy population pressure on land, the declining job opportunities and severe unemployment among the working and salaried classes enable the employers and propertied classes to keep the wages and salaries depressed and subject the poorer section of the population to severe exploitation. The inequality inherent in the capitalist system is thus intensified several-fold in the hierarchical, semifeudal societies in the developing countries. As inequality in wealth and income rises, so does the rate of saving; and capital accumulates at an ever increasing rate. But the growth of the domestic market expands at a rate slower than the rate of expansion of the accumulations. For the growth of the domestic market depends, by far, on the growth of income of the working and salaries classes. If their income grows at a slow rate then the domestic market also expands at a slow rate.

The high rate of growth of income of the propertied classes enables them to accummulate a surplus at a very high rate while the slower rise in the income of the working classes leads to a slower growth in the demand for consumption goods. The failure of the consumption goods market to expand rapidly generates a surplus of saving and investible funds whichn can not be invested because of the failure of the market to grow adequately. The capital-scarcepoor countries thus suffer from a glut of capital.

If labour income does not rise, or rises at a slower rate than the property income, then the demand for wage goods

will rise less than the supply of producer goods. A faster rise in the supply of producer goods would imply a rapid rise in the productive power of the community. Thus society gets into an inevitable contradiction resulting from unequal distribution of wealth: a rapid rise in property income leading to rise in demand and supply of capital goods, increasing the productive power of society, while the failure of labour income to rise leads to a slower rise in the demand for consumer goods, The inevitable consequence of the failure of wages to rise is the creation of surplus funds and idle capacity leading to ultimate stagnation in the economy.

When the market fails to fully utilise the capital stock, further investment slows down. The higher income obtained by the property-owners is then spent on luxuries, imported concsumption goods, in foreign travel, or just sent abroad as deposits in foreign banks. All these uses of property income requires foreign exchange which may not be available in sufficient quantity. These demands therefore can be satisfied only to a limited degree. The balance of the savings of the propertied classes is then invested in the traditional channels, viz in real estates, in speculation, trade, rack-renting and in usury, or spent in domestic luxuries, in building temples, setting up highcost schools, in buying up newspapers and subsidising political parties.

None of these uses provide any solution to the contradiction; on the contrary many of them further deepen it by reducing the labour income and increasing the property income still further.

There are two ways this contradiction can be resolved without altering the ownership structure of property and the hierarchical social structure. The upper strata may obtain foreign exchange through exports and take the surplus accumulations out of the country as foreign deposits, in foriegn investment

in import of capital goods or in import of roeign luxury goods. This method was used by the western capitalist countries and by Japan. In order to make foreign investing and exporting safe and easy, they conquered the colonies to expand their exports. Since colonisation is rather difficult these days, this method cannot be used by the capitalist class in the deve- oping countries.

A second method that is being used extensively by the developing countries is to ask foreign multinational corporations to take over the market, join hands with them to produce for export and use the opportunity they provide to take away the surplus accumulations of the capitalists from the country and invest them abroad by evading the exchange control regula- tions. Multinational corporations, however, are not generally too anxious to export their products. This privilege they leave to their parent companies. The only product they are too anxious to export are raw materials for their home industries. The sutheast Asian countries have adopted this type of develop- ment policy. The inevitable consequence has been the domina- tion by foreign companies and foriegn powers over their eco- nomies. Since the nationalist forces within the country resist such domination, this system is being maintained by imposing a rightist dictatorship.

It is clear, therefore, that the developing countries cannot maintain economic growth and democracy and political freedom without changing the hierarchical social structure indefinitely.

The faster rise in the income of the propertied classes and the slower rise of the income of the labouring classes will sooner or later create serious disequilibrium in the system. The system could be maintained by force by pushing down the living standard of the poorer sections of the community still

further. A rightist dictatorship in collaboration with foreign multinational corporations has been the usual method both in southeast Asian countries and in Latin America to suppress this contradiction and to prolong the hierarchical social structure.

As the crisis deepens an increasing pressure is put to subsidise exports by transferring resources from the other sectors which in effect means transferring resources from the developing countries to the developed countries. The demand for liberalising the laws permitting entry of foreign companies also becomes more insistent. In order to maintain the flow of profits and make the labour market more attractice to the foreign companies efforts are made to depress further the wages and salaries. Trade unions are attacked and company unions are set up under official patronage to weaken the owrkingclass resistance. Democratic rights of the people are closed down. The facade of democracy is thrown away as the crisis deepens and the country moves closer to dictatorship. This has been the history of the developing countries of Latin America and of Asia in the postwar years. India and Sri Lanka have been the only exception to this rule. How long they remain an exception remains to be seen.

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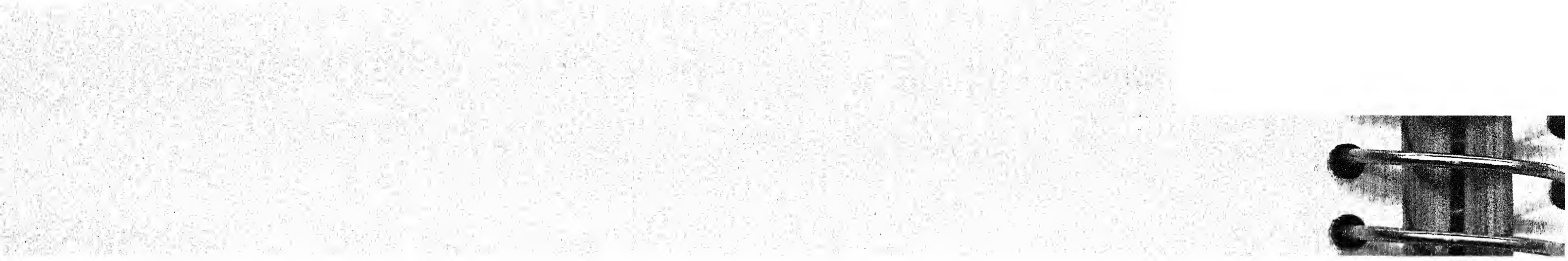

The Industrial Policy Controversy: Necessity of a Proper Perspective

By

H.K. Paranjape*

The present controversy about the industrial policy of the Janta Party and Government needs to be looked at in an overall perspective. The Party Manifesto as well as the policy statement issued last year has been vague and not very different from the professions of the earlier ruling party. While the election manifesto had spoken about the importance of actively curbing concentration of economic power and appropriately using the MRTP Act, nothing much has actually changed in the last two years since the Party won the elections and a new Government came into power. It was apparently a recommendation made by some Cabinet Ministers for the nationalisation of particular private sector companies such as TISCO and HINDALCO that started the present phase of the discussion. The National Executive of the Party reiterated its commitment to decentralisation of economic power and the effective reduction of, and control over, the holdings of large industrial houses, and appointed a Committee to go into the question. It is the prolonged deliberations of the Committee that have led to the present phase of the discussion.

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* The views expressed are personal.

Nationalisation for Ensuring Growth?

The first question that obviously arises is: What exactly is the purpose of suggesting nationalisation of particular industries or industrial units? Is it because without such nationalisation the growth of the particular companies or the concerned industries would be held up? Such an argument would hardly be valid in cases like TISCO, TELCO or HINDALCO. TISCO is an efficient unit, is undergoing expansion and would certainly continue to expand. TELCO is expanding, is known for its efficient performance, and there is no reason why it may not be expected to expand further. The same would be true about HINDALCO, except that the present location may not probably be the ideal one for further expansion in view of difficulties about availability of power etc. If it is the expansion not of these particular units but of the steel, automobile and aluminium industries which is expected to be promoted through such nationalisation, is there is real case that without nationalising these units the expansion of the concerned industries cannot take place? Steel is already expanding principally in the public sector, and TISCO's continuance as a separate unit cannot come in its way. As a matter of fact, one wonders whether making it subject to to all the over-centralisation and other difficulties of the SAIL units would help the further development of the steel industry. About TELCO, it could be said that its

active assistance and participation for promoting new units or improving the old existing units may be necessary for the proper development of the automobile industry. But it formal nationalisation of the TELCO the only or best way of securing such cooperation or participation? It cannot be overlooked that a great deal of cooperation of TISCO was obtained when the public sector steel units were being initially established. About the aluminium industry, we already have the beginnings of an aluminium industry in the public sector, and the growth of these units is not related to the existence or otherwise of HINDALCO as a separate unit.

Curbing Concentration

Alternatively, the case for nationalisation of these units could be on the ground that the concentration of economic power represented by these units or the Houses which control them needs to be curbed or reduced, and that the only effective way of doing this is through nationalising them. Is that a valid argument? It cannot be overlooked that the Government of India already has in its armoury certain very potent instruments for curbing the concentration of economic power of larger Houses. The MRTP Act and the MRTP Commission, the IDR Act and industrial licensing, the dependence of most large companies on public sector financial institutions for their finances - long-term as well as short-term-and the substantial holdings of these institutions in the equity of quite a number of companies

are very potent instruments. The LIC and the UTI are the largest institutional investors. From 1970, the Government has already been introducing a convertibility clause in the loan agreements of financial institutions which, if the Government so desires, can be used to increase public shareholding in a number of large companies. Has the Government and the various organisations under its control attempted actively to use these instruments for the purpose of curbing and reducing the misuse of the concentration of economic power in the hands of the Larger Houses? Can one say that any clear direction has been given in this respect by the new Government, or that any special effort or a major change made in the last two years? As a matter of fact, the Government had appointed the Sachar Committee to go into the working of the Companies Act and MRTP Act and make recommendations for their better operation. But the Report of the Committee has been with Government for over 8 months, and no early action appears to be in the offing. The Ministry of Industrial Development had even gone further and appointed a Committee on industrial licensing which consisted essentially of representatives of Large Houses and it has recently given a Report which, if accepted, would go against even the very feeble attempts made in the past to curb the concentration of economic power of such Houses. Regarding the financial institutions, it is well known that, not only has the convertibility

clause not been invoked to any significant extent, but more recently it has been thought fit to exempt a number of new project loans from such a clause even if the loans were being given to Larger Houses. Does all this show any clear or continuing concern to curb the power of these Houses?

Why Curb Concentration?

Even at the cost of repitition, certain points need to be stated. Concentration of economic power in private hands has been opposed mainly on two grounds. First, it puts too much authority and control in the hands of a small group to be consistent with the functioning of a democratic society. Secondly, it also increases the possibilities of economic and social exploitation, whether through the use of product monopolies, or through the considerable potential it creates for inequalities in real incomes, opportunities and consumption. Concentration of power in the Larger Houses creates the possibility that, through their control over purchases, sales, employment, entertainment and advertising, they are able to influence political parties, other influential sections as well as the press for more than can be accepted as healthy in a democratic society. They also make the growth and operation of independent business difficult, through their influence on the government - both at the political and the bureaucratic levels - and on bodies like the financial institutions as well as market agencies. Even in more affluent societies, such as those in the West,

this danger has been found to be very real. In poor countries like ours, it cannot but be sifnificant. The history since Independence of the continuing nexus between political parties and their leadership, especially the ruling party, and the large business groups has given adequate proof of the dangers involved in the continuation of such concentration. That is why, starting from the Mahalanobis Committee, a number of enquiries and studies have indicated how cencentration of economic power in the hands of Larger Houses has been growing in spite of various measures attempted against this tendency, and how therefore it is essential that this shouldbe curbed.

This does not mean that private enterprise has no role to play in our economy. Agriculture, small and medium industries, and even some large industries would continue in private hands for a long time, and hardly any political party suggests otherwise. Most parties also accept that concentration of economic power in the hands of a single State authority can be dangerous for democracy. Hence the emphasis both on decentralisation through establishing public enterprises under the Centre as well as autonomous States, autonomy of Government companies and corporations, thinking of nationalisation as not the only way of expanding the public sector but even joint sector development where State capital plays an effective role as being an acceptable method of expanding public ownership, workers participation

in management, and also emphasis on a mixed economy. At the same time, it is clear that at present the danger to democracy comes more from an alliance of Big Business on the one hand and a corrupt political, bureaucratic and anti-social leadership on the other. The danger arises more from elements enjoying State power who are corrupted by big business influence, and the 'demonstration effect' of the mode of living of the latter.

The measures to curb concentration of economic power have to be so operated as not to affect adversely economic and industrial growth and the operational efficiency of the enterprises. That is why what is important is the break up of the dysfunctional combination of a number of companies under groups of interconnected units in Large Business Houses, and not a break up of large individual companies which have a techno-economic justification. In the case of the latter, what is important is that the ownership and control of such inevitably large units should not vest with a family or closed business group; they should have widespread shareholding, in which the public financial institutions have a large proportion, so as to make sure that such units are professionally managed and are also not subject to vagaries arising out of family inheritance and problems connected with it. The recent history of some important private sector companies shows quite clearly how these companies can be mismanaged, made sick and their potentialities adversely affected as a result of gross

mismanagement, deliberate exploitation or family feuds. Hence the necessity of preventing such large units being dominated by individual families or closed groups.

Right from 1970, the announced policy has been to achieve this by increasing the shareholding of public financial institutions in such companies both through their investment policies and through the convertibility clause in the loans granted by these institutions. This can enable the institutions to influence the management of such companies through participating in electing the Directors, putting their nominees on the Boards and monitoring the working of the most important companies. The investing operations of the LIC and the UTI can be specially used for developing control over key companies. People who demand that shareholding of these institutions in Large House companies should be reduced forget the potential use of such shareholding, unless of course they want these companies to remain under Large House control. That even the institutions themselves do not feel committed to these policy approaches is clear from their action (and inaction)- including their recently reported willingness to contribute to 'rights debentures' which carry no convertibility clause.

Non-use of MRTP Act

The Dutt Committee and the MRTP Act attempted to provide a certain integrated approach to this whole matter. On the one side, the MRTP Act, especially Section 27, was

expected to be used to break up the large groups with dysfunctional and undue interconnections. It was also expected that unnecessary or harmful expansion of such units into new fields which was unjustified on techno-economic grounds would be controlled or prevented. At the same time further growth of units to be registered was not necessarily to be prevented. It is important to stress this point here because many times an impression is given as if the criterion for registration laid down in the MRTP Act - Rs. 20 crores of capital assets for a company or interconnected companies and Rs. one crore for a dominant company - is the maximum limit beyond which further growth is not to be permitted. This is not at all so. All that the Act intends is that such units have to be registered so that their further growth - whether in the same field or related fields - is subjected to scrutiny and examination. It can be permitted if it is found on balance to be beneficial, if necessary after imposing some conditions. The only possible objection to this can be that this would involve delays. What really happened since the MRTP Act was passed was that, with an increasing dependence by the ruling party on contributions from business concerns for political purposes, and with the increasing corruption of political parties and bureaucratic elements, clearance under the MRTP Act or other such clearances and permissions merely became bargaining counters. The MRTP Commission which was set up as an expert body to assist Government in taking decisions was largely ignored;

and it should be noted that most business concerns themselves preferred that their cases should be examined not by an expert body like the MRTP Commission but directly by Government. The reasons are obvious. They preferred a situation in which bargains could be struck rather than one where there could be an open enquiry, and therefore various unpleasant facts about their functioning and proposals would come up. It is also well-known that Section 27 on which much hope was placed for the break up of Large Houses has hardly been used since the inception of the Act. The result is that particular houses through various interconnected companies control large market shares in key products like cement, paper, soda ash, and other chemicals, with all the implications of such control.

Non-use of Convertibility Clause

Similarly, when the Dutt Committee suggested and Government accepted the approach that Large Houses could be permitted to develop into difficult or 'core' industries, this carried the corollary that, as such projects would require large scale finances which could only be provided by public financial institutions, and with the use of the convertibility clause, such core sector units would automatically come under joint ownership, with public financial institutions becoming important shareholders. It was suggested that these institutions should develop a corps of public interest directors who would make sure that these units are developed and operated in the public interest. That this

implication was understood by Large Houses and business interests is under scored by their persistent opposition to the convertibility clause, the latest instance being of TISCO insisting on obtaining a large expansion loan without such a clause. The lack of clarity and the weakness of Government - previous one and also the new one - is indicated by its giving way to this demand in various instances.

Comparable Data Not Available

The MRTP Act was also expected through the use of provisions against monopolistic and restrictive practices and the MRTP Commission to prevent the exploitation of the consumer. The actual working of the Act and the Commission, as recently analysed by the Sachar Committee, has indicated how ineffective these provisions have been and the reasons therefore. Even the fact of interconnections among different private sector companies, which had been so carefully worked out by the Dutt Committee, came to be largely ignored in the period since then. The MRTP Commission had no powers under the Act to examine questions of interconnections, andit is known that, in the few cases in which the Commission made such attempts, the concerned business groups stoutly opposed them. Though the Company affairs Department had such authority, hardly any worthwhile effort has been made to pursue the mattr. The result is that at present we do not even have comparable data about the growth of the Large

Houses over the last 20 years. The definition of a 'Karge House' has been different under the Monopolies Enquiry Commission, the Dutt Committee and now the MRTP Act. The Government has hardly made any effort even to provide comparable data to indicate what exactly the position is. This is as good an indication as any other of the lethargy, if not the inherent opposition, in governmental circles to any rational examination of the questions relating to concentration of economic power.

Overall Ceiling Undesirable

Some of the remedies that are now being suggested are such that they could prove impractical or worse. An overall ceiling for a business house of, say, Rs. 100 crores in terms of assets can mean that there would be a complete ban on the growth of some very important but large companies. Is that economically sensible? What is necessary is that such companies should be seprated from unbrella groups, public institutions shareholding in them substantially increased, and control over their management should be brought into prifessional hands, eliminating the dominance of family or group interests. This would ensure that the techno-economic advantages of large units are available to the economy but, at the same time, private interests are not able to wield undue influence through concentration of economic power in their hands. That is why the MRTP Act laid down a procedure

under which units that would be potentially troublesome could be brought compulsorily under scrutiny through the powers of registration and examination. There was however no idea that there should be a ceiling on the assets of a particular company. It is obvious that in the field of industry, techno-economic considerations would indicate different optima for different industries, and we cannot apply the logic of ceilings on capital assets in industry on the analogy of ceilings on land holdings. Even in agriculture, it is agreed that special types of farming, such as plantations, orchards or forests, require separate treatment and industry is far more varied than agriculture. An overall ceiling would therefore be disastrous in this field.

Avoid Straitjacket Solutions.

It is sometimes suggested that horizontal expansion should be prevented while vertical combination should be encouraged. This again would vary from case to case. If a unit has not attained its techno-economic optimum size-and sizes can increase with improvements in technology-then even horizontal expansion may be justified. Vertical integration may not always be justied if the techno-economic optimum at the backward or forward process levels is significantly different, and a vertical combination may be effect lead to the control or dominance of one unit over others. All such matters will have to be examined case by case, and no general rule or straitjacket can be applied to all types of industries. That is why it is more sensible to

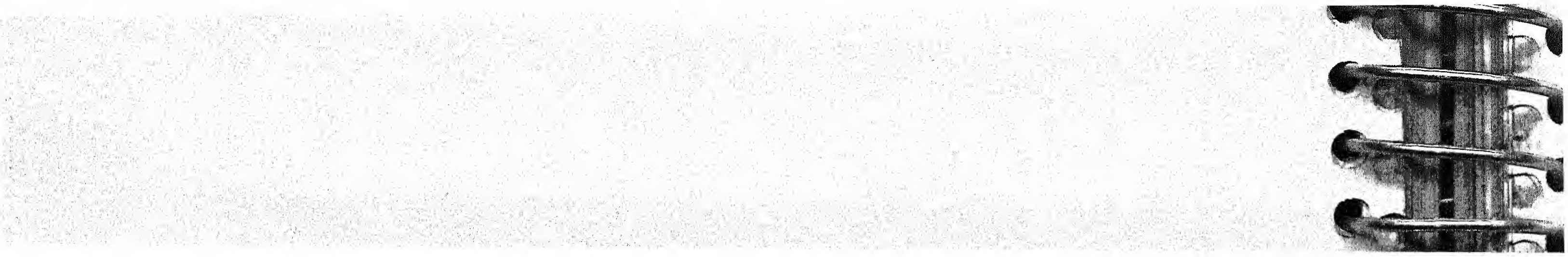
leave such matters to an expert scrutiny through open examination by a body like the MRTP Commission.

Is Janata Serious?

The real question which the Janata Party and Government have to decide is whether they are serious about their professions of decentralisation of economic power, effectively reducing the holdings of Larger Houses, bringing about more economic equality, and enabling workers to participate in management. The failure up to now to take effective steps against the use of cash contributions for political purposes has already made people suspicious about their real motives. The failure to deal with urgency with matters like improving the MRTP Act and taking steps to make the financial institutions more effective has deepened such suspicions and cynicism. Treating FERA Companies on par with Indian Companies once they satisfy the magic formula of 40% foreign equity-as if the real harm from their operations is through dividend distribution and not through effective control while makes it easy to operate instruments like 'transfer pricing' - is another tendency which smaks of ignorance or naivety.

Radical rhotoric and threats of nationalisation are unlikely to pay political dividends. All they may succeed in doing is to confuse issues and create a general public apathy towards the democratic political system. If this is to be avoided, it is necessary that some clear policy

framework about the kind of industrial structure that is considered desirable should be worked out, and early steps taken to streamline the instruments like industrial licensing, the MRTP Act, the FERA and the public financial institutions which are already with Government but which are used in a soul-less way, if not in a corrupt manner. That would not only be easier but also far more effective than unnecessary and empty talk of nationalisation.



NOT FOR PUBLICATION

NATIONALISATION – WHY?

By

K.V. Raghunatha Reddy

"John Bunyan, with his queer but deep insight, pointed out long ago that there is a way to hell even from the gates of heaven; that the way to heaven is therefore also the way to hell; and that the name of the gentleman who goes to hell by that road is Ignorance. The way to Socialism, ignorantly pursued, may land us in State Capitalism."

George Bernard Shaw

NATIONALISATION — WHY ?

Demand for nationalisation is not a matter of mere academic interest but has immediate relevance to economic growth, the basic principles of social and economic equality and the stability of democratic institutions. Nationalisation means transferance of property rights and property to the state. It is a powerful weapon in the socialist arsenal for creating socialist economy in which the vital means of production shall be under social ownership and the distribution would be socially controlled. Though mere transference of rights of property to the state is not socialism, there cannot be a socialist society without the social ownership of means of production and control of distribution.

In India, as in the case of other developing countries, the concept of nationalisation has become enmeshed in the institutional structure and conceptual framework of mixed economy. The concept of mixed economy in economic terminology means the state of economy in which state capital and private capital co-exist. It recognises the necessity for the intervention of the state into the economic affairs of the society. According to Steiner: The term mixed economy has three useful features: (1) it focusses attention on the fact that economic activity is determined by a blend of both private and public economic decisions; (2) it focusses attention on the most significant problem of public-private economic relationships, namely, that of working out the proper roles for government control and for private enterprise; and (3) the term seeks to express the idea that the solution of this problem will be found like a 'middle way' that is between the extremes of laissez faire and complete government control. Some of the features described by Steiner are a part of the developmental processes of India economy.

The role given to the public sector and its development occupying some commanding heights had influenced some social scientists to formulate the theory of non-capitalist path of development. They found similarity between multiple economic structures of Lenin's new economic policy and public sector (of mixed economy) in developing countries. At a stage of socialist transformation as conceived by Lenin's new economic policy, the dying capitalist economic form and developing socialist forms of production may co-exist and struggle, but the struggle is a temporary one. On the contrary, State capitalism would be the inevitable outcome if the monopoly capital is allowed to exist as a permanent institution of the economy.

Nehru has rightly observed in 'Glipses of World History' - "The state may be organised on some socialist lines for the benefit of the owning classes. The state socialism and state capitalism are much the same, as the real question is who is in command of the state and who profits by it - the whole community or a particular possessing class." Instead of gradual elimination of private sector, the state capitalism has helped the growth of private sector to a dominant position not only to control the economy but also the political processes.

Prof. Wadia and Prof. Merchant in their criticism on the first five year plan expressed their apprehensions about mixed economy :

> "If a mixed economy is regarded as a static order it will end by enthroning dictatorship in the interest of private business. In an under-developed country like ours there can be no royal road to an economic millenium.

> Even if a mixed economy is resorted to as a provisional measure for reaching the goal of raising the standard of the masses it cannot avoid the risk of ending with fascism. We need not add that in a policy of gradualism such as a mixed economy adumbrates there is the added risk of strengthening the defences of decaying capitalism and sanctifying the status quo."

As apprehended, mixed economy in India had provided the economic foundations of authoritarianism.

Nehru conceived mixed economy only as an intermediate stage in a transition to socialism. This is clear from his speech in the Constituent Assembly: "This brings us to a transitional stage of economy - call it what you like, mixed economy or something else". In Lok Sabha, he stated: "While the public sector must obviously grow and even now it has grown, both absolutely and relatively, the private sector is not something unimportant. It will play an important role though gradually and ultimately will fade away." (Nehru's speeches 1957-63 p.10). His view goes beyond even the recommendations of Planning Committee appointed by the Indian National Congress and reiterates observations of his own on the recommendations made by Karachi Resolution of 1931 regarding nationalisation and private sector: In his Autobiography, he observed :

> "In the Karachi resolution, it took a step, a very important step in a socialist direction by advocating nationalisation of key industries and services and various other measures to lessen the burden on the poor and increase it on the rich. This was not socialism at all and a capitalist state could easily accept almost everything contained in the resolution."

(Nehru - Autobiography p.266)

While Nehru and some advocates of socialism considered mixed economy as a phase in the transformation of Indian economy into socialist economy, among the academic economists, the left Keynsians supported the concept of mixed economy from the point of view of public investment, growth of employment and saw in it growth of regulated capitalism, safeguards for the interests of Indian capitalism, ensuring growth of oligopoly, the public sector providing necessary strategic economic support. As expected by Indian big business, the public sector did help the growth of private sector by providing necessary infra-structural facilities at low cost e.g. electricity, supply of capital goods, raw materials at low prices, financial support by way of participation in equity, preference shares, debentures and other loans at low interest rates and purchasing goods produced in the private sector.

The industrial policy resolutions of 1948 and 1956 legitimized the mixed economy though enormous emphasis was placed on the growth of public sector in vital sectors of the Indian economy, like the industries of basic and strategic importance. The public sector was expected to control the strategic points of economy while the private sector would develop within the given limitations and criteria laid down for its advancement: (a) the development of private sector should result in social gains and service to the community and not to private property; (b) it should result in uninhibited increase of production, and (c) the growth should prevent accumulation of wealth and economic power in private hands.

The Industrial Policy Resolutions of 1948 and 1956 embody this principle of intervention by the State, into the

economic affairs of the society. Even the colonial Government in 1945 (perhaps under the influence of Keyesian schoo of thought!) announced an Industrial Policy assigning a dominant role to the State Sector for development and State control of the basic industries.

As the purpose of Indian Planning after independence is only to provide for the limited public sector and mixed economy, there is not any striking distinction between 1945 industrial policy and 1948 and 1956 industrial policy statements. This accounts as to why the leading spokesmen of Indian big business welcomed the emergence of public sector as a generator of growth of private sector! Their expectations indeed are more than fulfilled. Mixed economy has come to stay as a permanent feature.

Notwithstanding the clear statement by Nehru about the role of the State and character of the economy that should ultimately emerge, an Indian variety of State capitalism with a powerful private sector deriving all the benefits of the State economic policy came to occupy the Indian economic scene in more or less permanent institutional forms as a result of adoption of strategy of mixed economy. This has led to the growth of oligopoly, concentration of economic power and structural constraints on growth. State seeks to regulate private sector but private sector controls political power in various visible - mostly invisible ways.

Indian economic planning is not socialist but capitalist planning. The society we have is a capitalist society. The state sector acts directly to help the growth of private sector. Notwithstanding the apphorisms of the defenders of faith and their passionate chanting of merits of

mixed economy, the economic system only operates in favour of private sector for its growth and concentration of economic power and it can be well described as a privatisation of public financial institutions, material resources, the state sector, public controls and, perhaps, the state itself.

Public Sector - Private Sector - Concentration of Economic Power - State Capitalism

Public Sector: The investments of the Central Government, industrial and commercial enterprises had grown from Rs. 29 crores in 1951 to Rs. 12,851 crores in 1978, but the annual gross growth rate of investment has been falling from 24.8% (1975-76) to 23.6% in 1976-77, and 15.8% in 1977-78. The investments are confined mainly to highly capital intensive industries of long gestation periods and with relatively lower returns. The public sector enterprises have a share in the product markets, as follows:

Saleable steel	...	80%
Copper	...	100%
Lead	...	100%
Zinc	...	79%
Coal	...	100%
Fertilisers:		
Nitrogen	...	45%
Phospatic	...	29%
Bulk Drugs	...	32%
Antibiotics	...	Ranging from 51% to 77%
Petroleum products	...	100%
Mining	...	67%
Machine tools	...	56%
Hydro & Steam Turbines	...	100%
Telephones	...	100%
Wagons	...	46%
Trawler tractors	...	95%
Sulpha drugs	...	Ranging from 51% to 100%
Professional electronics	...	82%
Photo Films	...	100%
Bread	...	65%

In 1975-76, 142 undertakings collectively made net profits of Rs.129.11%, Rs.239.59 crores in 1976-77 and a net loss of Rs.14.42 crores in 1977-78 but with respect of resource mobilisation, the figures are 1975-76 Rs.1368 crores, 1976-77 Rs.1597 crores, 1977-78 Rs.1802 crores. The reasons advanced explaining the loss incurred by the public sector enterprises are, among others: increased interest charges, lower utilisation of capacity due to power shortages, recessi on in world market, withdrawal of purchase price preference and industrial unrest, etc. But what is not clearly explained is that the character of mixed economy i-tself is responsible for the losses and sluggish growth of public sector. The public sector is concentrating in the high capital intensive fields, of longer gestation period - naturally of low returns - leaving the cream to priva te sector-

Contrary to the popular belief and the calculated campaign of the private sector, the public sector has only 15% share in manufacturing sector, its investment in the consumer industries is only 0.75% of its total investment in industries (Rs.96.17 crores). In Agro-based industries group, the investment is of the order of 0.1% (Rs.14.01 crores).

<u>Private Sector:</u> The private sector is predominant in agriculture, manufacturing, construction, trade and hotels and services. It is estimated that in 1973-74 the private sector generated an income of the order of Rs.42,384 crores.

	Income in private sector (Rs. crores)	Share of private Sector (%)
Primary	25,391	98.1
Manufacturing	5,893	87.7
Construction	2,003	90.2
Electricity	76	20.4
Transport, storage and communications	821	42.5
Trade and Hotels	5,392	97.1
Finance	1,197	61.6
Other services	1,612	61.3
	42,385	85.7

	Investments (Rs. crores)	per-cent	Increase in incomes (Rs. crores)	per-cent
Public sector	62,829	58	12,091	21
Private sector	45,028	42	48,120	79

It is clear beyond doubt that the high profit yielding industries and commercial undertakings are owned and controlled by the private sector and public sector acts as a feeder channel to the growth and profitability of the private sector. The public sector is mainly confined to the basic industries and projects providing for infra-structural inputs, like electricity and raw materials and capital goods. The products which are produced by these industries would have to be primarily used by the private sector to manufacture consumer goo ds or intermediate goods. The output in the public sector

is thus, to a large extent, regulated by the input requirements of consumer goods industry. The consumer goods industries in the private sector would limit their production having regard to the market i.e. the general purchasing capacity of the community and also their needs, or the public sector and private sector must depend upon exports.

If the poverty line increases and the demand for consumer goods falls, the private enterprise restricts production and increases prices for maintaining the rate of profit. Private sector had gone into lines of production that cater to the needs of approx.28% of the population only. Probably about 70% of the income generated is from areas, such as luxury goods with wide profit margin. This directly affects the public sector as it is mainly concentrating in capital goods industries and providing infra-structural facilities. Poverty line in India is estimated variously from 48% to 60%. It can be safely stated that the poverty line would not be less than 50%. The poverty line had increased from 37% at the time of independence to more than 50% now. In view of this, the cause of economic crisis is ultimately the accentuation of the poverty itself. But due to the structure of the mixed economy, the economic crisis affects the public sector while private sector would even make more profits by increasing prices and restricting its production. The growth of oligopoly and the profits would clearly prove this proposition.

The Sixth Plan document admits that market crisis is the reason for stagnation:

"1.8 The pattern of industrial development that has emerged obviously reflects the structure of effective demand, which is determined by the

distribution of incomes. An unduly large share of resources is thus absorbed in production which relates directly or indirectly to maintaining or improving the living standards of the higher income groups. The demand of this relatively small class, not only for a few visible items of conspicuo-us consumption but for the outlay on high quality housing and urban ameni-t ies, aviation and superior travel facilities, telephone services, and so on sustains a large part of the existing industrial structure. This means that the further expansion of industry is limited by the narrowness of the market. As a result, further import substitution of consumer goods or capital goods cannot, at the current level of demand, afford any great impetus for continued industrial growth."

The crisis is systemic Growth of oligopoly leads to economics of anti-growth, specially in a developing country. Mixed economy structurally is anti-growth. As in the case of international and capitalistic economic system, crisis in India too can be described as stagnation, inflation and recession syndrome. Ultimately poverty and lopsided income distribution are the causes.

Growth of oligopoly and concentration of economic power.

By 1975 the 20 business houses registered under Monopolies and Restrictive Trade Practices Act had increased their assets to Rs.4465 crores from Rs.2430 crores in 1969 and Rs.3059 crores in 1972. Two of the 20 business houses control the assets of the order of Rs.1768 crores, roughly working out 40% of the total assets of top 20 business houses.

24 houses control more than Rs.100 crores assets each as shows below:

(Rs. in crores)

Industrial House	1972 Assets	1972 Profits	1976 Assets	1976 Profits
1. Tata	641.93	48.92	980.77	56.12
2. Birla	589.42	45.86	974.63	118.84
3. Mafatlal	183.74	14.65	256.54	25.90
4. J.K.Singhania	121.45	5.92	241.23	7.97
5. Thaper	136.16	11.04	202.24	15.81
6. I.C.I.	135.21	17.47	198.99	32.76
7. Bangur	125.26	7.52	195.33	6.19
8. Scindia	107.73	5.44	177.08	5.63
9. Shri Ram	120.27	10.48	171.70	0.43
10. AC.C.	134.36	4.45	160.21	5.73
11. Kirloskar	86.46	2.03	152.47	13.90
12. Larsen & Toubro	79.03	4.65	147.74	16.09
13. Welchand	99.47	1.22	129.42	2.58
14. Mahindra & Mahindra	58.49	3.65	126.06	6.97
15. Bhiwandiwala	45.91	3.93	166.43	12.20
16. Hindustan Lever	77.87	11.48	122.51	21.58
17. Modi	58.05	7.35	117.79	3.84
18. Sarabhai	84.44	3.63	116.73	(-) 0.35
19. Macneil& Magor	64.80	2.80	113.35	19.63
20. Kasturbhai Lalbhai	78.61	9.04	109.63	17.29
21. T.V.S.Iyengar	50.97	7.72	105.78	14.04
22. Bajaj	63.32	8.72	101.51	7.69
23. I.T.C.	74.69	9.03	105.08	5.43
24. Khatau	75.44	6.82	100.22	14.85

As on 31st March 1978, there are 48,434 non-Government companies limited by shares at work with an aggregate paid up capital of Rs.2892 crores. Out of these, 7886 public limited companies with an aggregate paid up capital of Rs.2180.1 crores and 40,548 are private limited companies with an aggregate paid up capital of Rs.711.9 crores. A few investment companies which are closely held companies (the shares are held by a small number of members of the families) and control large business houses may be private limited companies, but almost all the companies that belong to large business houses are public limited companies. 16% of public limited companies control more than 75% of the total paid up capital. 84% of the companies have only about 25% of the paid up capital. The classification of the companies according to the total net assets shows concentration of both paid up capital and net assets in the upper-net asset ranges. Of 2338 operating medium and large companies, 368 i.e. 15.7% reported total net assets of Rs.5 crores or above each and their share was 17.3% and 70.4% respectively in the total paid up capital and total net assets of all companies put together. By the size of their paid up capital, 356 companies each with a paid up capital of rupees one crore and above constitute 15.2% by number, accounted for 69% of the total paid up capital and 66.4% of the total net assets. 1114 small operating companies had total assets of Rs.105.2 crores and paid up capital of Rs.21.47 crores. This shows the magnitude, enormity, and grave danger of concentration of economic power.

The paid up capital of all the 40,548 private limited companies put together amounting to Rs.711.9 crores was far less than the total assets of each of the individual business houses

of Birlas and Tatas in 1976, their assets being Rs.774.63 crores and Rs.980.77 crores respectively, according to the restricted classification of the M.R.T.P. Act. Classification of companies according to ILPIC criteria is bound to reveal a far larger number of companies belonging to these houses and a much higher value of figure of assets under their control.

According to the information given to Rajya Sabha on 21st August 1978, 25 members of the Birla family held shares worth about only Rs.4 crores in 72 companies registered under the M.R.T.P. Act. This illustrates how proportionately with a small investment, 25 members of a family are controlling assets about Rs.974 crores. This is achieved by controlling investment companies and strategic shareholdings by inter-corporate investments.

Role of financial institutions and banks:

The public financial institutions and the banks act as feeder channels to the development of big business houses by providing financial lubrication, and to perpetuate the control of business houses by small number of members of families as an integral part of State's strategy of mixed economy for economic development which leaves the cream to the private sector. This highlights the linkage between the State and the big business.

. . . .

Invariably, the capital issues are underwritten by the public financial insti-tutions and banks:

Year	Capital issues underwitten
1975	92.8 %
1976	97.0 %
1977	88.3 %
1978	92.6 %

In 1976-77 Rs.891.81 lakhs in equity and Rs.357.67 in preference (total Rs.1249.48 lakhs) and 1977-78 Rs.2176.48 lakhs in equity and Rs.268.34 lakhs in preference (total Rs.2444.8 lakhs) were contributed only in relation to fresh capital issues issued over the year.

For financing project costs of companies issuing capital during the years 1973-74 and 1977-78, the comp anies depended largely on the financial instituti ons and banks for loans a part from what they got as share capital invested both in equity and preference shares:

Year	Rs.(inlakhs)	Per cent
1973-74	22039.62	40.90
1974-75	10021.67	54.44
1975-76	25741.09	54.04
1976-77	15574.46	46.06
1977-78	32985.57	54.28

A study of the non-government non-financial public limited companies, whose financial year was from 1st April 1971 to 31st March 1972 reveals that total net assets amounting to Rs.8368.4 crores belong to this group. The loans taken from banks, I.F.C., S.F.Cs and from other institutional agencies and government and semi-government agencies in 1970-71 by medium and large companies were Rs.2179.25 crores and 1971-72 Rs.2287.36 crores (small companies 1970-71 Rs.15.77 crores and 1971-72 Rs.17.40 crores).

The IDBI, IFCI, ICICI, IRCI, SFC, SIDC, UTI and LIC and given within a period of three years 1975-76 to 1977-78 Rs.1726.5 crores as term loans. More than 80% of the loan had obviously gone to the private sector.

I.D.B.I. from its inception, i.e. from July 1964 to the end of June 1978 had disbursed to the private sector Rs.1442.49 crores (i.e.) 73.3% of its total disbursement.

The Banks during the years 1976, 1977 and 1978 had given loans to industry, wholesale food, export and credit -

As on		
June 1976	..	Rs.6785 crores
June 1977	..	Rs.7502 crores
June 1978	..	Rs.9808 crores

The pattern of assistance by the banks to the private sector has not changed even after nationalisation.

In actual banking operations, most of the short term loans in practice become long-term loans.

Sector-wide distribution of assistance sanctioned by All India Financial Institutions*

(amount in crores of Rs

Sector	1975-76	1976-77	1977-78
Public	87.64(15.5)	143.51(16.6)	128.16(11.8)
Joint	38.70(6.9)	76.79(8.9)	189.83(17.4)
Co-operative	36.99(6.6)	83.85 (9.7)	54.45(5.0)
Private	401.18(71.0)	561.08(64.8)	715.89(65.8)
	564.51(100.0)	865.23(100.0)	1038.33(100.0)

*Covered are IDBI, IFCI, ICICI, IRCI, LIC and UTI,
Figures in brackets indicate percentage to total.

The financial institutions for a long time were providing financial resources for the private sector. Due to considerable pressure and struggle in some sections in the Government, this policy was slightly changed and even public sector, co-operative sector and joint sector were included for financial assistance. Nevertheless the overwhelming percentage of assistance goes to private sector. As the private sector develops and the concentration of economic power had grow with the help of public money some companies resort to cornering and speculation with public money without any of its own. This is not what even Adam Smith and economists of his school of thought meant by lousser/furine. The burden of the risk is placed on the Government and as Sydney Lens aptly describes American system "we have a bastardised system that may be called 'corporate socialism'." The advocates of mixed economy and welfare state no doubt provide for some benefits to poor as a cushion against social turmoil, but a welfare state with private enterprises co-existing along with the public sector serves the big business. It is indeed a welfare state for the private sector and the affluent.

Apart from the direct financial assistance, on a large scale, given by the financial institutions and banks, there are special funds, like the Shipping Development Fund, providing loans to shipping and other companies. On some occasions, the amounts used to amount to 95% of the cost of the ships. The interest rates

were ridiculously low.

The private sector has thus a direct beneficiary interest in the development of state capitalism as its further growth helps to expand the market for the private sector. The domestic market provided by the purchases of Government and public sector is enormous and the private sector is the main beneficiary. Private enterprises also profit from the supply of raw materials and capital goods they received from Government enterprises at a very low cost. Thus as a supplier and also as a purchaser, the private sector derives all the benefits fromm the State and its enterprises. This explains how, while the poverty line has risen to 60%, the profits of big business houses have risen in some cases to 400% between 1972 and 1976.

The middle and small peasantry also is not left out and is the victim of collusion between state machine ry?(political or otherwise), millers and traders. The peasantry has produced about 127 million foodgrains. 20 millions (economic surpluses of misery) are said to be in stock but more than half of the people of India are below the poverty line. There is no purchasing cap acity; hence no market for foodgrains. The peasants are forced to distress sales; the millers and the traders buy the paddy at a low price while the Government agencies watch and finally in the name of

rescuing the peasant, buy from the millers, at very high prices, providing handsome profits to the traders and millers. The producer suffers, the consumer has no relief but the middlemen, a new parasitic class, make all the profits. The political bosses and the state machinery become accomplices and co-sharers (fortunately, there are a number of good, efficient and patriotic officers but their voices are only a cry in wilderness as the majority of the political bosses are interlocked with private enterprise).

Foreign companies: The foreign companies as defined under section 591 of the Companies Act, in 1978, are about 473. To mention a few, U:K., West Ger-many, U.S.A. they have 265, 80 and 11 respectively. The total assets of the multi-national corporations rose to Rs.2330 crores in 1977-78 from Rs.1160 crores in 1971-72. The profits before the tax in multinationals in 1971-72 was Rs.53.6 crores and Rs.52.3 crores in 1977-78. The assets of their subsidiaries in the relative periods are Rs.1145.44 crores and Rs.1740 crores, their profi ts Rs.1070.63 crores and Rs.140.6 crores respectively.

The multinati nals and their subsidiaries made remittances in 1971-72 Rs.80.70 crores and Rs.115.3 crores in 1977-78.

A study of industry-wise break-up of 541 foreign companies at work in India as on 31st March 1972 reveal that the highest number of companies i.e. 157 accounting to 29% of the total number of foreign companies were in the field of commerce, 22% of the companies were operating in the field of agriculture and allied activities, 14.9% in community and business services. 14.79% in manufacturing and processing. Out of these, 18 companies were found to be engaged in processing of foodstuffs, textiles and

leather -- the field which cannot be said to be beyond the reach of Indian technology.

The role of multinationals in various developing countries is well-known and their corrupting influence and political interference are matters of daily experience. An important section of citizens in India work directly or indirectly for foreign capital. There is interlocking of industrial, economic and political interests between the local persons and reactionary forces represented by multinationals. Contemporary developments in various developing countries of Asia, Latin America and Africa, have exposed the real face of multinational corporations. (The unscrupulous, subtle and insidious activities are making news every day) They are described as 'underworld of' international finance capital.

If dealing with them for purpose of technology becomes inescapable, it is better the State deals with them rather than private organisations, as the State is in a stronger position than any private organisation. As Anthony Samson observes in his book "The Sovereign State - Secret History of I.T.T. " (I.T.T. played a majo-r role in destroying Allende's regime in Chile) that "the nation is the only institution strong enough to stand up to the multi-nationals and instil comparable loyalties for the foreseeable future and it is only the nation that can redress the present imbalance". If one is to argue that the Government itself can be embodiment of corruption, then the answer is not the private organisation as the private organisations are mainly responsible for installing corrupt governments. The people in whom the sovereignity rests must and that government. Hence this aspect of the problem immediately

calls for take-over of all the non-governmental companies having either foreign collaboration or investments and the subsidiaries of multi-national corporations. Whatever the methodology may be, there must be transfer of ownership and control to the state.

Call it nationalisation, socialisation or social ownership, transfer of ownership of these assets, and control to the state is a must; management, not technolocracy, must change and workers must play a hegemonistic role if India is to progress, economic growth is to be achieved, unemployment problem is to be solved and social and economic equality has to become a reality.

As Beven had said: "It is a pre-requisite of social stability that one type of property ownership should dominate. In the society of the future, it should be public property. Private property should yeild to the point where social purposes and descent order of priorities form an easily discernible pattern of life." One can draw a line of demarcation between property for security and property for economic power. The proerty for security can remain personal and property for economic power should be owned and controlled by the community.

<u>Private sector - Unemployment</u>

Although the industrial production has increased at an average rate of 5.3% per annum and gross national product at 4.1% during the period 1972-73 and 1976-77 employment in organised sector increased by an average of only 2.5%.

The employment in public sector increased from 63.6% in 1972-73 to 66.9% in 1976-77. During 1976-77 employment in public sector increased at the rate of 3.6% whereas the growth rate of employment in private sector was much lower at 0.33%. In fact, there was negative growth rate during 1973-74. The additional employnemt provided by the public sector during 1972-73 to 1976-77 was about 18.74 lakh persons. The private sector could provide for a miserable figure of 18,000 additional persons only. This shocking position of private sector is attributed to the small increase in the public sec tor outlay and low investments in private sector. It is stated that investment decisions of private sector are guided and influenced by the tempo of public sector outlay. This once again goes to prove that private sector depends for its growth of public sector and public sedtor is the generator of growth in the private sector.

Unemployment position from March 1977 is as follows:-

March 1977	102.4 million
December 1977	109.2 million
December 1978	126.8 million
February 1979	132.8 million

The previous government promised abolition of poverty. Ironically the number below poverty line has risen to 60%. The present government has promised abolition of unemployment within ten years. Within a period of two years, the number of registered unemployed had grown by 30%.

From 1972-73 to 1976-77, the investments m ade by the financial institutions and banks in the organised private sector in equity, preferende shares and debentures and the term loan given by the financial institu-

tions excluding banks can be safely estimated to be Rs.33,422 lakhs after taking into account the possible investments in other sectors. (Approximately) only one person was employed for every two lakhs of rupees given to private sector.

Mixed economy and resulting concentration of economic power are an antithesis to economic growth. It would only increase further unemployment but not decrease. President Roosevelt rightly observed: "concentration of economic power.....and the resulting unemployment of labour and capital are inescapable problems of modern private enterprise democracy". But we continue to be the victims of illusions about mixed economy.

Bogy of Compensation

The body of large amounts of compensation and financial restraints is always raised by the private sector and the defenders of faith against any proposal for nationalisation. One should share this anxiety but there appears to be no need for paying any compensation in the manner it is apprehended. Already more than 25% of the paid up capital is owned by the financial institutions, banks and general insurance companies, state and central governments. Further, law exists for the conversion of government loans into equity. There is no need to make any distinction between government loans and the loans of financial institutions, as financial institutions are provided with funds by the government. Law can be amended to include the loans by financial institutions for converting them into equity. If the total shareholdings of investment companies are acquired

and even part of the loan is converted into equity, with the help of inter-corporate investments already made by the companies in the corporate sector, more than 70 to 80 per cent shares in almost all the companies can be taken over by government. There is no need at all for paying compensation. Non-financial private limited companies which may constitute nearly 82 or 83 per cent need not be touched. What is wanting is not the methodology or the finance. It is the political will and political instruments that are tragically lacking. Given the political will and instruments, the country would need hardly less than one-tenth of what banks wrote off as bad debts, in the private sector for ending the concentration of economic power.

Sick Industries:

It is generously suggested by some that only sick industries should be nationalised and not others. Industries become sick as a result of mismanagement; in some cases, it is advantageous to the management to allow the industries to go sick as they would derive all the benefits from the Government. The sick mills that have been taken over by the National Textile Corporation are telling examples. Some of the mills are doing well making profits after take over. This itself is a powerful argument in favour of public sector and its management. By the time the units become sick, all the available finances are sucked out. It is well-known that most managements pull out their financial capital by loading the price on machinery and constructi-on work (this is one source of black money). If the industry becomes a success, the management gets all the benefits and if it fails, it is the ordinary shareholder, public financial institutions and the State that lose. Managements no doubt, would have a lion's share out of the invested funds even

when the projects fail. Companies become sick but managements become fat. Therefore, taking over sick industries is only converting public sector into a nursing home to sick capitalism at the expense of the State.

Regulation

It has been urged by some that by amending the provisions of the Companies Act, and the Monopolies and Restrictive Trade Practices Act, and especially sharpening the other rusted weapons of regulation and imposing a ceiling on the assets at the level of hundred crores, one can deal with large industrial houses.

Facts condusively show the concentration of economic power and control of capital by a small number of persons and families in the country, though the data is indeed not complete but is only indicative. In the dark ravines of big business, there may be more hidden wealth and concealed information. An irresistable conclusion that follows is that notwithstanding all the regulatory measures like Companies Act, Monopolies and Restrictive Trade Practices Act, Capital Issues Act, etc., and all the other weapons in the armoury of the state to control growth of oligopoly and concentration of economic power, wealth and material resources are concentrated in a few hands. Monopoly capitalism is the result. Still economists talk about regulation. All these regulations had proved not only ineffective but also in a way further helped concentration. Anti-Trust laws were described by American writers' as 'folklore of American capitalism' and laws of regulation in India can be well described as the legal foundations of Indian capitalism.

The proposal made by some economists that none of the companies belonging to a large business house, controlling assets of more than Rs.100 crores should be allowed any licence for expansion may be economically undesirable and legally subject to challenge. Each company is a legal entity and merely because a large industrial house has "any interest" in it cannot be a ground to take away, absolutely, its right to expand, especially so, when expansion is in respect of wage goods and economics of scale stand assured. Starting new enterprises, when existing ones engaged in the same field starve for want of expansion upto optimum size can hardly be in overall interest of the economy. Therefore, imposition of an overall c eiling of Rs.100 c rores on the assets of a House can hardly be a good solution.

The proposal that surplus funds of large houses should be invested in fixed deposits in nationalised banks is equally unworkable for each company is a separate legal entity with its own shareholders.

Expansion of units belonging to large business houses however inv ariably leads to accentuation of concentration of economic power. The only way out is to allow expansion to individual units to attain economies of scale but to bring them under social ownership the moment their assets reach a certain size, say Rs.1 crore, to ensure that it does not add to concentration of economic power.

Given the structural character of the mixed economy even though financial institutions and banks were nationalised, they had to necessarily provide the requisite financial support to the private sector in the interests of economy. The economic growth

in the context of mixed economy would necessarily lead to further accentuation of concentration of economic power. The private sector commands the lucrative heights and the public sector acts as a generator of its growth. Economics of scales and growth should not be sacrificed for the sake of legitamising capitalism by regulation. The only remedy is social ownership.

Big business and political parties.

Donations made by the companies to political parties provide a binding link between big business politicians and the political organisations. Notwithstanding the ban on donations, about Rs.10.3 crores were paid between January 1974 and March 1977 by companies to various political parties. In order to avoid the ban on donations, advertisements were given to the souviners. This was only a substerege to defeat the law. Even the persons occupying high positions in the Government today when they were directors of the companies did not feel hesitant to issue the advertisements to the souvenirs and bulletins brought out by political parties. Even the Government firms were not spared. 101 government firms had made payments for advertisements till March 31, 1977. It was reported that a chief of a particular party was given Rs.113 crores by the Industrialists for 1977 elections.

The black money operates with wider remifications. Estimates had been made by various committees that the amount of bl-ack money in circulation would be even of the order of Rs.10,000 crores. Black money normally is

generated through the sole selling agency, purchasing agency, commissions that can be collected by the management at the time of construction of projects and installation of machinery by imflating project costs.

The report of the Monopolies Inquiry Commission mentioned that the big business stretches its tentacles into the working of democratic institutions and political parties, since large funds are required to meet election expenses. Political parties, politicians are forced to depend on the companies and persons with large amounts of black money at their disposal and it is common knowledge that black money is used for this purpose. Black money corrodes democratic institutions, values and processes. The administrators undergo a metamorphosis from regulators to protect interests of society to apologists of big business. Political technicians, the corruptors of public life dominate and pervert the political proccesses and parties.

Black money distorts priorities in planning as the private sectors investment flows in the direction of production of goods and services needed by persons having purchasing power. Demonetisation is no solution specially when the banks with huge deposits amounting to several hundred c rores are still in the private sector. The menace of black money can be ended only by limiting the scope of private sector and ensuring public distribution system. For this purpose, nationalisation of major industries, investment companies and the remaining banks in the private sector is immediately called for.

Democracy and Big Business

There is a perpetual and inherent conflict between capitalism and democracy. The pernicious influences of the powerful monopolies and the danger they pose for democratic institutions were succinctly summed up by Wedgewood Ben. Referring to the large companies in England, he said: "if we do not control or own them, they will control and own us". The great humanist Abraham Lincoln, just before his assassination said:

> "I see in the near future a crisis approaching that unnerves me and causes me to tumble for the safety of my country ......Corporations have been enthroned, an era of corruption in high places will follow, and the money-power of the country will endeavour to prolong its reign by working upon the prejudices of the people until the wealth is aggregated in a few hands and the Republic is destroyed."

How prophetic these words are!!

The contemporary corporate capitalist society is afflicted by an incurable disease - paralysis of structure. It is not a mere lapse of health to be palliated by regulation. Authoritarian state capitalism is fascism installed and is an unacceptable alternative since it is as disabling as the basic malady itself. Socialism, therefore, becomes the inevitable restorative which will cleanse our society of all the malaise that exists and will ushere in a vibrant and resurgent society of equals. The forces of socialism should unite to march ahead with courage and conviction to win the war against poverty and inequality before darkenss descends. They should make history now or else history will pass them by.

THE STATE IN POST-COLONIAL SOCIETIES:

The object of this article is to raise some fundamental questions about the classical Marxist theory of the State in the context of post-colonial societies. The argument is premised on the historical specificity of post-colonial societies, a specificity which arises from structural changes brought about by the colonial experience and alignments of classes and by the superstructures of political and administrative institutions which were established in that context, and secondly from radical re-alignments of class forces which have been brought about in the post-colonial situation. I will draw examples from recent developments in Pakistan and Bangladesh. There are, necessarily, some particular features which are specific to that context. But the essential features which invite a fresh analysis are by no means unique. In particular the special role of the military-bureaucratic oligarchy has become all too common a phenomenon in post-colonial societies. This role now needs to be interpreted in terms of a new alignment of the respective interests of the three properties exploiting classes, namely the indigenous bourgeoisie, the Metropolitan neo-colonialist bourgeoisies, and the landed classes, under Metropolitan patronage a combination which is not nuique to Pakistan. If a colony has a weak and underdeveloped indigenous bourgeoisie, it will be unable at the moment of independence to subordinate the relatively highly developed colonial State apparatus through which the Metropolitan power had exercised dominion over it. However, a new convergence of interests of the three competing propertied classes, under Metropolitan patronage, allows a bureaucratic-military oligarchy to mediate their competing

but no longer contradictory interests and demands. By that token it acquires a relatively autonomous role and is not simply the instrument of any one of the three classes. Such a relatively autonomous role of the state apparatus is of special importance to the neo-colonialist bourgeoisies because it is by virtue of this fact that they are able to pursue their class interests in the post-colonial societies.

A fundamental distinction can be seen between that situation and the situation which followed the bourgeois revolution in European sodieties on which the classical Marxist theory of the state is based. A distinction may also be made between cases such as that of Pakistan which experienced direct colonial rule and other countries which experienced colonial exploitation under indirect rule. My analysis is confined to an example of the first type. Perhaps comparative analysis will throw light on the similarities and the differences between it and cases of the other type. Such comparative and critical studies are needed before we can hope to arrive at a general theory of the State in post-colonial societies. The purpose of this article will have been served if it focuses on fresh questions that require to be asked in relation to post-colonial societies.

CLASSICAL MARXIST THEORY

A focus on the central role of the bureaucracy and the military in the government and political development of post-colonial societies raises some fundamental questions, especially with reference to the classical marxist theories. What Miliband calls the primary marxist view of the State 'finds its most explicit expression in the famous aphorism

of the Communist Manifesto: "The executive of the modern state is but a committee for managing the common affairs of the whole bourgeoisie," and political power is "merely the organized power of one class for oppressing another."[1] Miliband adds: "This is the classical marxist view on the subject of the State and it is the only one which is to be found in marxism-leninism. In regard to Marx himself, however, ... it only constitutes what may be called a primary view of the State... for there is to be found another view of the State in his work... This secondary view is that of the State as indpendent from and superior to all social classes, as being the dominant force in society rather than the instrument of the dominant class.' This secondary view of the State in Marx's work arises from his analysis of the Bonapartist State. Miliband concludes: 'For Marx, the Bonapartist State, however indpendent it may been politically from any given class, remains, and connot in a class society but remain, the protector of an economically and socially dominant class.'

In the post-colonial society, the problem of the relationship between the State and the underlying economic structure is more complex than the context in which it was posed even in the Bonapartist State or other examples which arose in the context of the development of European society. It is structured by yet another historical experience and it calls for fresh theoretical insights.

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1. R. Miliband, 'Marx and the State', in R. Miliband and J. Saville (eds): Socialist Register 1965.

The military and the bureaucracy in post-colonial societies cannot be looked upon, in terms of the classical marxist view, simply as instruments of a single ruling class. The specific nature of structural alignments created by the colonial relationship and re-alignments which have developed in the post colonial situation have rendered the relationship between the state and the social classes more complex. The two patterns of historical development are quite different. In Western societies we witness the creation of the nation state by indigenous bourgeoisies, in the wake of their ascendant power, to provide a framework of law and various institutions which are essential for the development of capitalist relations of production. In colonial societies the process is significantly different.

The bourgeois revolution in the colony insofar as that consists of the establishment of a bourgeois state and the attendant legal and institutional framework, is an event which takes place with the imposition of colonial rule by the metropolitan bourgeoisie. In carrying out the tasks of the bourgeois revolution in the colony, however, the metropolitan bourgeoisie has to accomplish an additional task which was specific to the colonial situation. Its task in the colony is not merely to replicate the superstructure of the state which it had established in the metropolitan country itself. Additionally, it has to create state apparatus through which it can exercise dmonion over all the indigenous social classes in the colony. It might be said that the 'superstructure' in the colony is therefore 'over-developed' in relation to the 'structure' in the colony, for its basis lies in the metropolitan structure itself, from which it is later separated at the time of independence.

The colonial state is therefore equipped with a powerful bureaucratic-military apparatus and mechanisms of government which enable it through its routine operations to subordinate the native social classes. The post-colonial society inherits that overdeveloped apparatus of state and its institutionalized practices through which the operations of the indigenous social classes are regulated and controlled. At the moment of independence weak indigenous bourgeoisies find themselves enmeshed in bureaucratic controls by which those at the top of the hierarchy of the bureaucratic military apparatus of the state are able to maintain and even extend their dominant power in society, being freed from direct metropolitan control.

THE ESSENTIAL PROBLEM

The essential problem about the state in post-colonial societies stems from the fact that it is not established by anascendant native bourgeoisie but instead by a foreign imperialist bourgeoisie. At independence, however, the direct command of the latter over the colonial state is ended. But, by the same taken, its influence over it is by no means brought to an end. The metropolitan bourgeoisie, now joined by other neo-colonialist bourgeoisies, is present in the post-colonial society. Together they constitute a powerful element in its classstructure, The relationship between neo-colonialist bourgeoisies and the post-colonial state is clearly of a different order from that which existed between the imperialist bourgeoisie and the colonial state. The class basis of the post-colonial state is therefore complex. It is not entirely subordinate to the indigenous bourgeoisie, in view of the power and influence of the neo-colonial bourgeoisie. Nor is it simply an

instrument of any of the latter, which would have the implication that independence is a mere sham. Neither bourgeoisie excludes the influence of the other; and their interests compete. The central proposition which I wish to emphasize is that the state in the post-colonial society is not the instrument of a single class. It is relatively autonomous and it mediates between the competing interests of the three propertied classes, namely the metropolitan bourgeoisies, the indigenous bourgeoisie and the landed classes, while at the same time acting on behalf of them all to preserve the social order in which their interests are embedded, namely the institution of private property and the capitalist mode as the dominant mode of production.

The multi-class relationship of the state in post-colonial societies calls for specific explanation, and an examination of its implications. In this situation the military-bureaucratic oligarchies, the apparatus of the state, furthermore assume also a new and relatively autonomous economic role, which is not paralleled in the classical bourgeois state. The state in the post-colonial society directly appropriates a very large part of the economic surplus and deploys it in bureaucratically directed economic activity in the name of promoting economic development. These are conditions which differentiate the post-colonial State fundamentally from the state as naalysed in classical marxist theory.

The apparatus of state does not, however, consist only of the bureaucratic-military oligarchy. Where democratic forms of government operate, politicians and political parties too form a part of it. Where political

leaders occupy the highest offices in the state, formally invested with authority over the bureaucracy and military, the role of the bureaucratic-military oligarchy cannot be evaluated without a clear understanding of the priecise role of politicians and political parties in the state, and the extent of their powers and their limitations. Politicians and political parties stand at the centre of a complex set of relationships. On the one hand, they are expected (ideally) to articulate the demands of those from whom they seek support; they are supposed to attempt to realize those demands by their participation in the working of government. On the other hand, they also play a key role in manipulating public relations on behalf of those who do make public policy, to make it acceptable to the community at large. For that they channel public grievances and seek to promote an 'understanding' of the situation concerning public issues which would diminish potential opposition. Their relationship with the bureaucratic-military oligarchy is, therefore, ambivalent; it is competitive as well as complementary. The ambvalence is greater where politicians who occupy high public office can influence the careers of individual members of the bureaucracy or the military.

There are many variants of the distribution or sharing of power between political leadership and bureaucratic-military oligarchies in post-colonial societies. Political parties at the vanguard of the movement for national independence inherit the mantle of legitimacy and the trappings of political power. Nevertheless, in a large number of post-colonial countries there has been in evidence a progressive attenuation of their power and correspondingly there has been expansion in the power of bureaucratic-military oligarchies, which often culminated in an over

'seizure' of power by the latter. In general, however there has been accommodation as well as tension between political leadership and bureaucratic-military oligarchies. The former do serve a useful purpose for the latter. They confer the mantle of political legitimacy on regimes and, through the charade of democratic process, they absorb public discontent and channel grievances. The role of political parties does not necessarily rule out the relative autonomy of bureaucratic-military oligarchies. The essential issue is that of the relative autonomy of the state apparatus as a whole and its mediatory role as between the competing interests of the three propertied classes, namely the domestic bourgeoisie, the metropolitan bourgeoisies and the land-owning classes. Insofar as a political leadership participates in the performance of that mediatory role and in the preservation of the relative autonomy of the State apparatus, it is valuable for the purposes of the bureaucratic-military oligarchy; it becomes their partner i.e. a third component of the oligarchy. It is only where political parties seriously challenge that relative automomy and along with it the mediatory role of the bureaucratic-military oligarchy that conflicts arise in which, so far, the latter have prevailed. We have yet to see a clear case of unambiguous control of state power by a political party in a capitalist post-colonial society. The case of India comes nearest to that. But even in India the situation is ambiguous. The ruling Congress Party is by no means a party of a single class; it participates with the bureaucracy in mediating the demands of competing propertied classes, which at the same time participating with it in using state power to uphold the social order which permits the continued existence of those classes, despite the socialist

rhetoric of the Congress Party. Even with regard to foreign capital, the actual performance of the government of India is very different from the rhetoric of the Congress politicians.[2] What is crucial to the present analysis is that behind the apparent power of Congress politicians, the Indian bureaucracy does enjoy a very wide margin of autonomy, on which recent research has thrown some light.[3]

To understand the way in which relationships between the bureaucratic-military oligarchies and politicians have evolved in India and Pakistan one must look at the historical background of the development of their mutual relationships and especially the institutionalization of a wide measure of bureaucratic and military autonomy. Before independence members of the bureaucracy and the military were the instruments of the colonial power. One of their principal functions was to subordinate the various native classes and to repress the nationalits movement on behalf of their colonial masters. During the freedom struggle, they were on opposite sides of the political barricades from the leadership of the nationalist movement. After independence, the same political leaders whom it was their task to repress were ensconced in office, nominally in authority over them. A new relationship of mutual accommodation had to be established. The experience of partial transfer of power by stages during the twenties and the thirties had, however, already institutionalized procedures by which

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2. Hamza Alavi, 'Indian Capitalism and Foreign Imperialism', New Left Review 37, June 1966.

3. C.P. Bhambhri, Bureaucracy and Politics in India, Delhi 1971.

the bureaucracy could by-pass the political leaders who had been inducted into office, on sufferance under the umbrella of British imperial rule. These institutionalized procedures were extended and consolidated by the proliferation of bureaucratic controls and the fact that, by and large, members of the public have extensive direct, routine dealings with the bureaucracy which do not admit of mediation by political parties. An exception occurs only when individual politicians seek favours from officials for some of their supporters, in which case their relationship vis-a-vis the bureaucracy is weakened rather than strengthened. Politicans are reduced to playing the role of brokers for official favours. This mediation between the public and the bureaucracy is one of the important sources of political power in India[4] as in other parallel cases. The politician can, however, ill afford to lose the good will of the official, and this influences the overall balance of their collective relationship. The strength of the bureaucracy rests on the extensive proliferation of administrative controls and the direction of a vastarray of public agencies engaged in a variety of activities.

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4. This 'middleman' role of Politicians has been analysed in numerous studies, of. F.G. Bailey, Politics and Social Change - Orissa 1959, London 1963.

Source: New Left Review, No.71,73-76 Jan-Dec. 1972. pp. 59-64.

Source: 'State Capitalism and the Third World' by James Petras in Development and Change, Volume S, No .1, Jan.'77 (pp.1-19)

Introduction

While in long rerm world-historical perspective it is probably correct to view Third world prospects in dichotomous terms (socialism or neo-colonialism) over the short and medium run it grossly over-simplifies events and developments, under-estimates the political and social capacities of non-socialist forces and seriously distorts the actual class stтucture in formation in the Third World......

The early stages of capitalist development, especially for countries beginning their industrialisation after 1850, has always involved large-scale state investments in all or most of the essential areas of the economy for varying periods of time. In the last quarter of the 20th century, faced with the mighty power of the MNCs, 'national' effort in the Third World requires a vastly expanded role on the part of the state. If indeed 19th century Japan required massive state investments to alter the balance of power between national and imperial capital, how much more so is this the case in the underdeveloped economies of contemporary Africa, Asia and Latin America. Under mounting international pressures from the imperial centres, with their voracious appetites for raw materials and growing capacity to absorb local markets, the nationalist state remains the last barrier to total subordination and fragmentation in the new international division of labour.

Externally induced effort limits industrialisation in the Third World to particular 'moments' of the process - whether it be assembly plants, light industry, or capital goo ds (without the technico-research capacities). Despite the high growth rates which a minority of dependent countries have experienced in recent years, the scope and depth of industrialisation - the qualitative aspects - hav e been far from acceptable. In many cases one finds that the greater the degree of externally induced industrialisation the more fragmented

becomes the economic activity (the more immersed it becomes in the world capitalist division of labour), the greater its vulnerability to external fluctuations. For these reasons, among others, the externally-directed industrial effort is becoming increasingly rejected in the Third World in the form of <u>a national state capitalist model</u> which attempts to devise a different pattern of industrialisation which links the various phases of the industrial effort - from technological innovation through assembly - within the bounds of the nation-state. The key strata initiating and seeming to direct the conversion from neocolonialism (externally induced expansion) to state capitalism - via evolution, coup, popular uprising on some combination - are the state sector employees (civil and/or military). This last possibility of capitalist development in the Third World then borrows 'socialist forms' - political (one party state, socialist rhetoric etc.) and economic (state ownership, planning etc.) - to accomplish capitalist ends - the realisation of profit within a class societ y.

Past and present experience with Third World state capitalist regimes suggest three areas of socio-economic change; a) major efforts at transforming an agro-export society through national industrialisation; b) the creation of an internal market through agrarian reform which concomitantly limits or eliminates the political power to the landlord class; c) the nationalisation or control over natural resources and harnessing the surplus to national development projects.

<u>The Contemporary Historical Conjuncture</u>: The failures of privately - induced nationalist-capitalist industrial expansion is a fact that characterises most of the Third World in the post-World War II period. The lack of capital, competition from imperial firms, 'liberal' economic policies promoted by states controlled by agro-export sectors, small internal markets, stiff competition in ternational markets, the low level of technology and the long maturation period for profits relative to non-industrial investments, have all militated against large-scale, long-term investments in industry by indigenous capitalists. In addition, national capitalists have frequently sought out foreign capital, selling all or part-ownership of the firm in

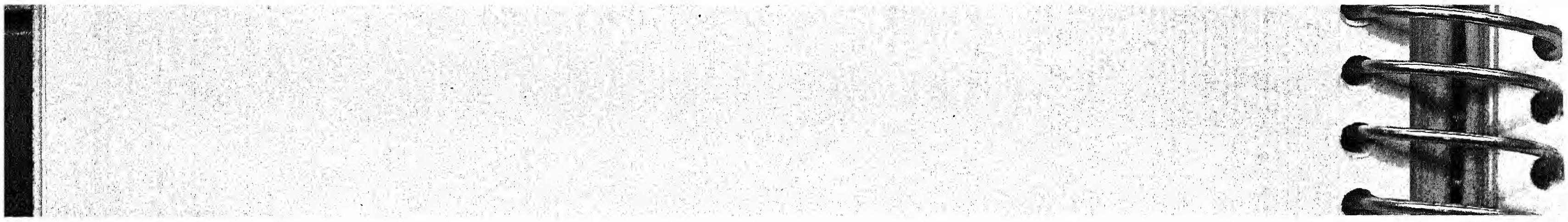
exchange for market outlets, technology, access to credits, or for immediate access to cash. In general, private national capital has been confined to slow-growth consumer industries oriented toward internal markets, whose size and growth is constricted by the low level of effective consumer demand and vast social inequalities, both products of exploitative social relations. On the other hand, foreign-financed industrial expansion has resulted in heightened social inequalities, long-term decapitalisation of the economy and in many cases enclave economies which fail to absorb the increasing number of urban underemployed and unemployed. Besides, the sovereignty of the state gets eroded by external debts and political influence of foreign-owned firms.....State capitalism emerges in part as a response to the unfavourable economic fortunes of private national capital and the high political and social 'costs' of foreign-induced economic expansion..... The expropriation of imperial firms is both an economic necessity to state-capital induced accumulation and a source of political legitimacy: by integrating the resources and capital formerly controlled by foreign firms into a 'national' development effort through the process of nationalisation, one of the essential elements of the bourgeois-nationalist revolution is confronted, the formation of a national economy.....The expripriation of imperial firms does not call into question the fundamental issues of capitalist property relations. The transfer from imperial to state ownership occurs without any radical shift in the social relations of production (including wage/salary differentials, managerial prerogatives and/or the hierarchy of authority), market determination or profit calculations. State ownership does not in any fundamental way transform the conditions of exploitation of labour but rather reflects a shift in the source of exploitation and perhaps a change in the disposition of the surplus (a greater percentage is re-invested in productive facilities within the nation instead of in the metropolis). From the political vantage point, striking at imperial firm s avoids serious internal conflicts as fractions of the state-capitalist ruling class might maintain direct or indirect ties with indigenous property groups. The maintenance of a national private sector allows state capitalists who accumulate at the expense of imperial capital to branch-out at a later

period in private ventures. The sequence in some state-capitalist regimes is for state capitalists to accumulate private wealth through salaries and other perquisites, to open opportunities for investment through the state, to finance private investments through private savings and public loans and to eventually 're-invite' foreign capital for joint ventures (e.g. Mexico). The existence of 'private economic space' allows this option to remain available even if latent during the initial period of a state-capitalist regime. In summary the principal characteristics of state-capitalist regimes are statism, economic nationalism and capitalist-social relations. In the present conjuncture, national state capitalism appears as a rising social formation displacing the traditional neo-colonial regimes and confronting the socialist aspirations of the masses.

<u>International and National setting for State-capitalist power</u>

.....The rise of national state capitalism occurs in a period of the relative declining power of U.S. imperialism, the growth of inter-imperialist rivalries, the decay of the nationalist vocation of the national private bourgeoisie and the relative weakness of the newly politicised and mobilised mass movement of workers and peasants.........A precondition for the creation of a national-capitalist economy is the nationalisation of imperial firms; the basis for creation of an internal market is the agrarian reform. Hence the state-capitalist regime is characterised by extensive efforts at nationalisation and land reform. The manner through which these radical reforms are implemented and the political and social consequences, however, clearly distinguish these efforts from a socialist revolution: The state bureaucracy replaces the imperial investors and indigenous land owners as the organisers of production and, of course, the appropriators of the surplus.........Unlike the earlier bourgeois revolutions which led to the incorporation of greater and greater sections of society to private market relations, in the present period market relations and capitalist production are extended through the expansion of state enterprise: first through expripriation of imperial firms, later through direct state investments. Unlike other experiences in which the state expropriates unprofitable private enterprises, or operates firms at a loss to provide cheap services for the private sector, in state capitalist societies the expropriated firms are profit-making and are seen as the 'engines' of development.

<u>Relationship of military to class structure:</u> ......State capitalism should not be confused with state intervention. In the latter the state functions as a handmaiden of the private sector, not as an active competitor, providing credits, subsidies and cheap services at a loss. In state capitalist regimes the state as the owner of productive and profitable firms is a substitute for the private sector......The state-capitalist regime attempts to redefine the terms of dependency and to contain labour demands to favour nationalist capitalist accumulation. The forms of national-state-capitalist accumulation include a variety of policy instruments: initially they can involve increasing tax revenue from the earnings of imperial firms; extending ownership to include management rights; limiting foreign capital activities to the external sector (commerce); fragmenting their operations (exploration right, management contracts), limiting exploitation to specified time periods, limiting access to local capital, directing foreign-owned industries to export markets, etc. They culminate in measures involving varying degrees of nationalisation which have allowed the state capitalists to capture the bulk of the surplus......The state capitalist class without its external sources of finance must seek in and through state ownership means to promote the accumulation of capital at the expense of the working class...... Structural changes and ideological appeals without mass participation become the hallmarks of the transition from neo-colonialism to national state-capitalism.



N A T I O N A L I S A T I O N*

I. WHY NATIONALISE?

At present the bulk of our industry is under private ownership and control. The Congress Party, before Independence, had proclaimed that nationalisation of key and basic industries was one of the basic tenets of its economic policy. Even as late as 1947, the Economic Committee, under the chairmanship of Pandit Jawaharlal Nehru, had recommended early nationalisation of basic and key industries. But these have turned out to be only empty promises. The Government of India, under Pandit Nehru, announced its industrial policy in 1948, which virtually assured a free field for private enterprise even in the sector of key and basic industries for at least ten years; and, even at the end of ten years, there was to be only a fresh consideration of the problem. The Prime Minister, in his characteristic manner, belittled the idea of nationalisation as an outworn idea. Both in profession and in action, the party in power has indicated its belief in and reliance on private ownership and control of industry.

The Record of Private Industry

What has been the record of private industry in this country? The earliest industrial units were organised in India almost a century ago, and so private enterprise has had a long innings, though not on perfect wickets yet on one capable of quite handsome totals. While it is true that Indian industry had to face many handicaps under foreign rule, on the whole it has been exceptionally lucky in many ways. The Swadeshi movement helped to create a market even for the dearer and inferior products that were turned out by Indian manufacturers. Further, since 1920, a num-

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*SOCIALIST PARTY

ber of industries enjoyed the benefit of protection under the partial fiscal autonomy granted by the foreign government. Industries like iron and steel, sugar, paper, matches, were built up only with the assistance and guidance of the State, which meant considerable sacrifice for the tax-payer and the consumer. Further, the second World War provided a heaven-sent opportunity to private industry. A sellers' market developed in almost all sectors and almost any product, of however low a quality, could be profitably sold. The continued world-wide scarcity almost throughout the post-war period, and especially the balance of payments difficulties in India, ensured a trickling and erratic flow of imports. These conditions have continued in the post-war period also. No one can say that private industry has not had sufficient opportunity to build up a structure which would satisfy the needs of the community. But what record has private industry to show for all these opportunities? Lop-sided industrialisation, fabulous profits, black-markets, tax-evasions.

Industrial Backwardness

After a hundred years of industrialisation, we remain considerably backward. The proportion of our population employed in large-scale industry continues to be small, so that heavy pressure on agriculture continues, resulting in a low standard of life for the masses in the country. As regards the development of different types of industry, we find that our industrialists continue to concentrate only on a few easily managed sectors. Private industry has been playing for safety and has shown little initiative in breaking new paths in industrial development. The development of The Tata Iron & Steel Company might be considered to be an exception, but it should be noted that it owes considerably to the detailed recommendations of successive

Tariff Boards for its technical progress, and, of course, it could not have attained its present position without the generous protection granted by Government. India continues to remain backward in the development of basic industries like heavy engineering and machine-tool industries. The technical efficiency even of industries of long standing continues to be very low. In a century of industrialisation, we find no notable instance of any technical innovation introduced by Indian industry. The so-called industrialists remained content with the profits that they could obtain by exploiting the worker, the shareholder and the consumer, and showed no realisation of the necessity of technical progress. Very few private industrial conderns gave any attention to technical research and other methods for raising efficiency. The Board of Directors of the Industrial Finance Corporation cannot be accused of an anti-capitalist bias as a large number of the directors are businessmen. But in the reports of the Corporation we find a severe indictment and exposure of the inefficiency and unscientific methods of organisation and management used by privately owned industry in India.

Financiers - Not Industrialists

The main reason for this state of affairs is that our industry has been under the control and ownership of financiers. It was the class of traders and bankers and money-lenders that entered the field of modern industry in India. Barring a few exceptions, the people who own and control modern industry are financiers of the get -rich-quick variety. They are not entrepreneurs or industrialists in the real sense of the term. They are not interested in the continued prosperity of any industry. They have neither the imagination and understanding nor the ambition and capacity of a Ford or a Nuffield to develop industry on an

entirely new basis so as to serve themselves through serving the people. They are just interested in making money, by any means, fair or foul.

This means, firstly, that only those industries are develpped, those products produced, which yielded big profits in a short period. Even if the necessity is for ordinary low-priced cloth for ordinary people, rayon factories for producing highly-priced cloth ar e established, and no capital becomes available for the other purpose. The development of key industries involves considerable risks, they become profitable only in the long run, and so there has been little development under private enterprise of key industries.

Defrauding Shareholders

As maximum profits in the shortest possible time is the objective of our so-called industrialists the interests of all other sections of the community are sacrificed to this end. The ordinary shareholder, generally indifferent, or ignorant, is cheated so as to fill the pockets of the controlling industrialist. Defrauding shareholders in various ways has been developed into a fine art by our industrialists and the managing agency system is their chief instrument for the purpose. T he managing agent generally (barring a few exceptions, of course) is more interested in his own immediate profits than in the continued prosperity of the firm. Managing agency rights are bought and sold and the assets of the concern exploited to the detriment of the interests of the shareholders and the community at large. This scares away the small investor from industrial investment leading to capital scarcity. The increasing concentration of control of our industry can also be directly ascribed to the instrument of the managing agency system.

Exploitation of Workers

The Indian industrialist has seldom been known as an enlightened employer. He has fought tooth and nail every reform in the conditions of industrial workers. Cheap, exploited labour has always been an important factor helping to make up for the inefficiency of Indian private industry, so that profits continued to be made in spite of technical backwardness and inefficiency.

Deceiving the Public

The public, which patriotically supported the Indian industrialists through the Swadeshi movement, and made no little sacrifice under the system of protection for the development of Indian industries, has fared no better at the hands of our "patriotic" Indian industrialists. The consumer has always been exploited through low quality and high prices whenever possible. Even before the war, the sugar industry had given a foretaste of the profit hunger by forming a monopolist syndicate to maintain a high price even while it was enjoying protection. The war and the p ost-war period has been specially useful in revealing the real character of the Indian industrialists. Creating artificial scarcity, charging unnecessarily high prices, black-market operations, sabotaging government attempts to ensure equitable supply and fair price to consumers - there was not a single method, legal and illegal, that Indian industrialists did not use (or do not use) to exploit the consumers for their own profits. No doubt a weak and indifferent foreign Government during the war, and a weak and confused (perhaps interested and servile) Government in the post-war period, has helped them to carry on with impunity their anti-social activities. But experience has at last left no doubt in the minds of the ordinary public as to how far our "industrialists" are interested in the welfare of the community.

The Monopolist Octopus

Because of the poverty of the country there is little capital available for industrial development. Therefore, the very small group of people who can command this capital are in a position to exploit the situation, especially as due to nationalist sentiments and aspirations we are ready to provide partly guaranteed and exclusive internal markets for their products. A large part of the profit obtained, (leaving aside of course the present black market profits), is just in the nature of monopoly profits. Such monopolistic tendencies have been actually accentuating since the end of the second World War, and a few groups are increasing their octopus-like hold on the Indian economy. (See Who Owns India - Asoka Mehta). Groups which control basic production like steel, or cement, or power, or necessary consumers' goods like cloth, or finance (through control over banks and insurance companies) are very powerful and can dictate to the Government. They are a menance to the public in general. Is it proper that organisations which are in a position to wield such a control over the community should continue under the direction of individuals who are in no way responsible to the community? Could this sort of conditions be called democracy? Democracy is threatened by the growth of such monopolistic large private interest economic groups. The dangerous tendencies like capitalist-dominated chain of newspapers, indirect i nfluence through various means on political parties, and corruption of public men and public officials which are gathering more and more strength in India have to be checked, if democracy is to be established on a sound footing in our young Republic.

II OUR STAND

The Socialist Party stands for nationalisation of the basic and key industries, of the basic financial institutions, and of industries which supply basic consumer goods like cloth. Nationalisation would mean that industry would be developed on the basis of a long-range plan, priorities in development would be determined on the basis of social welfare and, most important, there would be no fear of the plan being sabotaged by selfish monopoly groups as the basic fields would be directly under the control of the State. Whatever profits are made would be ploughed back for further economic development according to plan. More attention would be given to rationalisation and technical advance so as to raise efficiency. Labour would be given a fair deal and, by various methods of industrial democracy, their usefulness to the community would be enhanced together with an increase in their welfare. A system of equitable distribution at fair prices could be successfully worked, as there would be no "patriotic industrialist" friends sabotaging the schemes. It should be noted that, as under any scheme of rapid economic development large savings will be necessary for capital formation, shortages in consumer goods are bound to exist for a long period. But a system of equitable distribution would minimise the necessary sacrifice and ensure a just distribution of the burden. As the Government would be controlling the basic structure of the economy, private industrialists in the remaining sectors would also find it difficult and dangerous to sabotage Government plans and schemes. With the elimination of very large monopoly groups controlling important sectors of economy, the dangerous anti-democratic tendencies like control of public opinion and influences over political parties would also diminish in importance.

Congress Opposes Nationalisation

Prime Minister Pandit Nehru has attacked the concept of nationalisation when attempting to justify the industrial policy of his Government. Why should Government burden itself with old outworn industries, he asks! According to him, the Government should enter new fields which are more promising in the future. There are a number of fallacies involved in this statement. First, as pointed out above, basic and key industries have to be nationalised not only because they are not sufficiently and properly developed by private entrepreneurs but also because it is dangerous to allo w such basic industries to be controlled by persons or corporations not responsible to the community, and it has been the experience in our country, as elsewhere, that it is extremely difficult effectively to control privately-owned industries in the interests of the community, when the bulk of the economy is under private ownership and control. Secondly, in a country like ours where capital is acutely scarce, is it worthwhile to start new industries to satisfy wants which the old industries are satisfying, though perhaps somewhat less efficiently? Moreover, what "new" industries could be developed, for example, to satisfy the want for cloth? Further, if the Government has to allow the bulk of the existing industry to be privately owned, it must adopt such taxation and other policies as to induce capitalists and financiers to save and invest their funds in those industries. This would necessarily mean the continuance of wide inequalities of income; and the possibility of State controls and plans being put out of gear by the non-cooperation of private industrialists; and the dependence even for the development of "new" industries on the favour of the rich financiers. From where, under this scheme,

would the State raise finance for the development of its own industries except through borrowing? The capitalists are bound to resist all progressive social and economic legislation - minimum wage, social insurance, dividend control, death duties etc. - and as the experience of the last few years clearly indicates, we will have neither an enterprising and efficient private sector nor the key public sector. Capitalism is possible only on terms of laissez faire. Those who reject laissez faire but do not accept the logic of nationalisation only maim capitalism and stultify socialism.

Further, is Pandit Nehru's Government invariably following even the policy of organising new industries as State concerns? A number of new concerns are being floated by private industry after independence in co-operation with foreign capitalists, the foreigners generally providing the machinery and the know-how, and Indians the bulk of the finance. Could not these industries be as well started as State concerns from the beginning? Foreign capitalists would not have been averse to enter into agreements with the Government on at least as favourable terms. So we find that the Prime Minister's answer to nationalisation was a fallacy made to sound plausible and nothing more.

Compensation

Compensation has been one of the main bugbears in nationalisation. If the various industries are to be taken over by Government, large amounts would have to be paid as compensation. From where, it is asked, would the, State raise all that amount? Would it not create an intolerable financial strain for the Government? The Socialist Party has decided upon an effective solution of the problem. While compensation will be formally paid when an industry is taken over, for large industrialists and businessmen this would be only a book-entry as, under the scheme of capital levy that the Socialist Party would adopt, their large for-

tunes would largely be surrendered to the Government and hence the shares in their possession would automatically be transferred to public ownership. The small investor would continue to hold the shares or he would be paid in terms of Government Bonds on which a fair return would be guaranteed. The measure of capital levy wo uld solve two problems at a time. It will reduce the inequality of property possessions which is the main reason for the present inequality of incomes; and it will considerably lessen the financial strain involved in nationalisation.

Personnel

Another useful objection raised against nationalisation is how would the Government run the concern once it is brought under State ownership? Where would Government find the men to carry on the regular routine work? Now there is an obvious answer to it. Our industry today is in reality worked by technicians and salaried managers. The so-called industrialist, many a time, does not understand a thing about the working of the industry. The people who really run the concern would be employed by the State instead of by the private corporation, and there is no reason why they should not continue to do their work at least as efficiently, if not more. As a matter of fact, all employees could be expected to work better in a nationalised industry, because they would be working for the community and not for enriching any individual. Of course, they could be expected to do this only if they believed that the State was working the industry really for the benefit of the community as a whole, and if the organisation of the industry is such as to induce them to take a personal interes t in the success of the concern.

State Initiative

It is said that the State is not capable of taking initiative or trying experiments and is thus not capable of developing new industries and maintaining efficiency by adopting technically advanced methods. First, as we saw above, the record of private industry in India in this resp-ect has not at all been enviable. Secondly, the development of a number of new types of industries in Mysore State under the direct control and ownership of Mysore Government during the last three decades shows that a State administration is capable of taking initiative and risks.

It can be safely said that the initiative shown by Mysore Government was unequalled by any private concern except perhaps the Tatas. The efficiency of Mysore industries was always at a high level unlike many of our privately owned industries. This example indicates that the State is quite capable of taking initiative and organising new industries - provided of course that the Government believes in its own capacity to do so.

Defects in Present State Enterprises

This does not mean that the Socialist Party is blind to the possible dangers inherent in the working of nationalised industries. While very few privately owned industries in India can be considered to be more efficient than the railways owned by Government, there is no doubt at all that the structure of State-owned business concerns is not, as it should be, in India. There are many defects in the methods used in these concerns, and they should be removed if these concerns are to work efficiently and win the confidence of the people. The State projects like the Sindri Fertiliser Factory, the pre-fabricated Housing Factory, the Nagpur Paper Mills, etc. under the Congress Governments have been worked in such a fashion that a Government deliberately working to discredit nationalisation could not have

done anything worse. Many of the projects were not properly planned; the whims of ministers or non-expert civil servants played an unnecessarily large part in the planning and execution of the projects; no long-term planning regarding State projects in general was attemp-ted so that a very large number of projects were taken in hand simultaneously and all these could not be simultaneously financed at later stages when increasing finance was required, and so capital was locked up over long periods; experts or consultants who had no idea of the Indian background were appointed as heads of organisations and they committed a number of serious mistakes; grandeur of construction ("Largest in the World" or "in Asia") was unnecessarily given too much importance, leading to over-capitalisation. The railways and many of the new industrial and business projects have been departmentally managed too long leading to a division of responsibility, which has meant that the maintenance and improvement of efficiency has not been the definite responsibility of any single official. Civil service methods of recruitment, appointment, promotion and dismissal, have been used in this field, where business-like methods should have been used. Lastly, the Government has been too soft regarding the officials put in charge of the projects. Success or failure has not made much difference to the officials in charge. The Government have also fought shy of open enquiries into mistakes alleged and, when enquiries were made, the reports have not been made available to the public. The Government has forgotten the old saying: <u>To do good to the evil is to do evil to the good</u>. Such ways lead to unnecessary suspicions about the real state of affairs. Perhaps it might be said that such mistakes were inevitable in the case of a party which did not believe really in nationalisation.

Organisation of State Enterprises

The Socialist Party would organise State-owned industries on altogether different lines. The industries would be organised as autonomous public corporations. Departmental management in the case of public enterprises would be done away with as far as possible.

While the Government will continue to enjoy these ultimate powers, in the actual day-to-day management of the concerns the managing authority will enjoy a considerable degree of autonomy. Such autonomy is essential for efficient management and the departmental management of most of the State-owned concerns upto now has been one of the main reasons of the bungling and inefficiency that continues to prevail. Government machinery by its very nature is not suited to the management of business and so a different type of organisation has to be built up for that aspect of State activity.

Persons who have experience of management would be appointed to the Boards and to other important positions and these appointments would be continued only on the basis of results shown. The best qualified people would be appointed to important posts through a proper recruitment organisation. The terms of service, promotions and dismissals would be more business like and there would be established a definite and direct relationship, wherever possible, between efficiency and reward. Of course, socialised industry could profitably use not only monetary but also non-monetary incentives; these latter can and will be more effectively used in socialised industry. Scientific methods of management which are almost conspicuous by their absence in private industry today, would be effectively used in socialised industry.

"Enlightened Ruthlessness"

The nationalised industry would be required to submit detailed periodical reports to the legislature and also to make all necessary information available to the public. Any case of failure to attain targets, corruption etc., would be immediately enquired into and the information would be made available to the public. "Enlightened ruthlessness" has been described by Mr. A.D. Gorwala as that power within a man in authority which enables him to take dedisions solely on grounds of the public good, whatever the strain on his own emotions or loyalty, the effect of such decisions on particular industries, the closeness of the ties between him and the individuals, or the strength of the influence they are able to bring to bear upon him. This quality is very much wanting in public administration generally and, to a very large extent, in the administration of economic affairs under the Congress regime. The Socialist Party would act on this principle of "enlightened ruthlessness". Criticism of the working of the nationalised industries would not be frowned upon but workers, consumers and the public at large would be invited to show the defects in their working. The continued efficiency of these industries would be ensured o nly by a process of constant examination and constructive criticism.

Decentralisation

The industries would be organised on a decentralised basis as far as possible so that the local management and labour would feel responsible for the proper running of the concern. While some machinery for co-ordination would obviously be necessary, the Socialist Party does not believe in the creation of huge monopolistic nationalised concerns.

Safeguarding Consumers' Interests

Labour would be accepted as a partner and as a co-trustee in the nationalised industries. The State would provide for wages and proper working conditions for the employees. This does not mean that labour in these industries would be given special advantages at the expense of the community at large. More important than this, new opportunities would be opened for the ordinary employee. Facilities for advancement through training would be provided, so that an ordinary worker could aspire to rise to the top. Machinery for consultation would be provided at various stages so that the ordinary worker would have a voice in the running of the concern. Thus we would move towards Industrial Democracy.

Scope of Nationalisation

Nationalisation would cover not only the basic and key industries but also industries which considerably affect the life of ordinary people and where monopolistic tendencies have made proper control of price and quality impossible. It would also cover basic financial institutions, mines and plantations, and rail and motor transport. Of course, all such industries cannot be taken over at once. As experience is gathered and an Economic Civil Service is built up and expanded, more and more concerns would be taken over. Industries in which the small capitalist predominates will not be taken over as far as possible, though the State would encourage co-operative industries in such sectors. The financial policy of the State would be such as to reduce inequality of incomes. Capital formation through small savings, co-operative organisations and socialised industries would be relied upon, as against capital formation through rich individuals. Except for small concerns, capital investment would be under the control of the State. The major

financial agencies would be nationalised for this purpose.

To conclude, the economic conditions of our country, and the record of our private industry, both show that the nationalisation of some important sectors of our economy is absolutely essential in the interests of economic development and economic welfare. The Socialist Party accepts this proposition. The Socialist Party also promises that the organisation and working methods of the State-owned industries have to be so evolved as to avoid concentraion, ensure efficiency, develop industrial democracy and provide a fair deal to the consumer.

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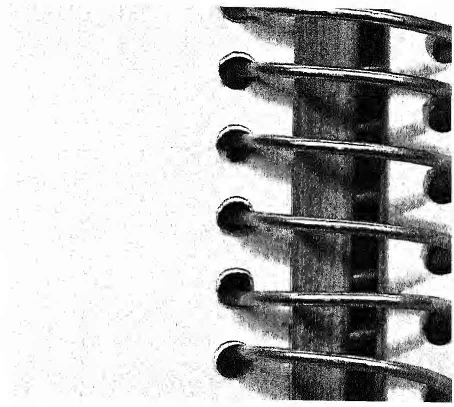


Points for consideration of the
Committee on large houses.

BY

Shri Viren J. Shah

The basic objective before the Committee is to examine and suggest means to achieve de-centralisation of the economic power and healthy industrial development. The National Executive Resolution also adds that it is imperative for the above that control and holdings of large industrial houses are effectively reduced. The basic consideration before the Committee would, therefore, be decentralisation without adversely affecting healthy industrial development.

2. The Election Manifesto and the Economic Policy Statement lay emphasis on the fact that the prty would steer clear of the evils of capitalism and State capitalism and the decentralisation of economic power is to follow Gandhian precepts. We must guard against the growth of monopoly and seek to achieve the widest possible dispersion of the ownership of property and means of production. The Documents also state that the Government should not permit any company or group of companies to have a dominant share of market or allow these companies to be in a position to dictate terms to producers, suppliers and consumers.

3. The 20 large industrial houses may be allowed to expand only in those areas where such expansion is clearly in national interest. In order to break the monopolistic stronghold of a group of companies or inter-connected companies these inter-connections of groups will have to be broken. It should

be the policy of Janata Government to encourage new entrepreneurs in new lines of industrial activity.

4. The Party Document also says that we will ensure optimum production per unit of capital investment in the field of industry. The public sector has to set the tone of the national economy by improving efficiency of public sector enterprises and managerial capabilities.

5. The Committee has, therefore, to suggest such steps which will lead to growth as a basic objective for social justice and also reduce concentraation of economic power in the hands of a few as also in the hands of the State. Relevant facts and data will have to be obtained with regard to both the 20 large houses as also the public sector corporations. Incidentally it seems that we still do not have information about the companies and organisations which really fall within the control of different large houses and the share of the market that they have in the product concern. A yardstick about largeness of a house must be laid down. The assets of an individual house should be viewed in the context of the toal investments in the industrial sector at a given point of time as also in terms of the projected growth in all areas. We will also have to be clear about the concept and definition of monopoly, interconnnection and large houses in Indian situation. We will also have to examine how we can achieve dispersion of industry in the largest possible hands.

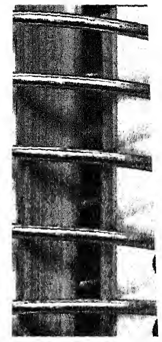
6 Thus, the policy will have to be in the context of growth, productivity and efficiency. We cannot afford to lose sight of the existing administrative structure of the Government and the public sector corporations which we may not be able to drastically change over night.

7. The data which are being collected should clearly indicate the status of the Government-owned companies and those of the large industrial houses as it was in 1965-66, 1975- 1975-76 and projected for 1983-84. The information should be in meaningful terms. This would enable us to judge to what extent the public sector is acquiring progressively greater pre-dominant role in the economy. The Committee will have to see as to how this role of the public sector can be designed to benefit consumers andthe tax-payers at large. We must also examine the different product areas in which large houses are currently engaged. This may enable the Committee to determine whether there are such product areas which the large houses may be asked to divest themselves of.

8. The question of vertical integration versus horizontal integration merits careful examination. It may appar that the local conclusion of asking a company to expand only vertically may lead to that company acquiring a dominant role in the manufacture and distribution of that particular product. If several companies are allowed to have diversification no one company or a group or a house would acquire such a dominant position. This would permit competition leading to better results for the consumer.

9. Under the existing laws and Government orders the large houses are barred from setting up new facilities for items other than those prescribed under the 'core' sector. If necessary, this area may be reviewed. We will also have to examine that in case they are divested from some industries whether Government should takeover these industries of create conditions by which new entrepreneurs could acquire such industries. Simultaneously, it will be necessary to consider and recommend steps which would lead a larger number of new entrepreneurs to set up industries. If there are inhibiting factors today they need be examined and recommendations for removal of such factors to considered.

10. The Committee should also aaquaint itself with the reasons as to why the public sector, as it is today, is not giving returns and also the main constraints and inadequacies in its successful functioning. Ultimately, the public sector has to provide goods and services to the people at the lowest cost and also give adequate returns to the Exchequer. By 1982-83, more than Rs. 30,000 crores will be invested in the public sector. One would like to see how a 15 per cent return on this investment is earned by the Exchequer.



LARGE HOUSES
AND
CONCENTRATION OF ECONOMIC POWER

(Summary)

Economic power of large houses, in terms of market share, is negligible (para 1.2). These houses have a vital role in promoting growth of industries like cement, steel, aluminium, etc. to which the Minister of Industry made reference in his Note to the Executive Committee of the Janata Party (para 1.4). Already there is enough legislation to ensure that any economic power at the disposal of these houses is not abused. (Para 1.5).

It is usually complained that abuse of economic power leads to, firstly, generation of unaccounted money, and, secondly, appointment of relatives etc. in lucrative positions. (Para 2.1). However, it must be appreciated that unaccounted money is due to scarcities and the exercise of different types of controls by government. Also, there are extensive provisions in the Companies Act requiring government's approval for appointments of persons in important positions. (Para 2.4).

The share of top twenty houses in industrial assets in India is 14 per cent; in U.K. and USA the share of top twenty companies is 45 per cent and 32 per cent respectively. (Para 3.1). Moreover, the share of top twenty houses in total industrial assets in India has decreased from 15.4 per cent in 1972 to 14 per cent in 1976 and will be only 12.3 per cent in 1982. (Para 3.2).

Concentration measured in terms of gross assets is unrealistic. If at all assets are taken as the norm they should be computed after deducting liability. (Para 3.4).

The apparent growth of large houses is mainly due to inflation. Replacement of capacity costs is very much more than original value of assets. (Para 4.2 and 4.3).

The largest enterprises in different industries in India are, in size, only about 2 to 4 per cent of the units in similar industries abroad. (Para 5.3).

Technological improvements and generation of internal resources make growth necessary whether the enterprise is large, medium or small. (Para 6.2 and 6.3).

The products manufactured by large houses are mainly those in the core sector and have helped import substitution (para 7.2). The areas open to large houses cannot be static and should be reviewed from time to time. (Para 7.3).

Diversification of production is necessary to avoid increase in market share in any product. (Para 8.4). HMT, for instance, has gone into such diverse lines as machine tools, watches, electric bulbs, etc.

Financial institutions should primarily hold shares of new undertakings and dispose of shares which are in public demand. This will help rolling of funds. (Para 9.3).

- Large houses are already subject to extensive government control operated through Industrial Licensing, FERA, Essential Commodities Act, MRTP Act, Company Law, etc. (Para 10.1).

- Nationalisation leads to State capitalism which is against the ethos of the Janata Party. (Para 11.1). In spite of the high share of the market, the performance of public sector enterprises is poor (para 12.1). Similar undertakings in the private sector earn higher profits (para 12.4).

- Instead of the negative measure of nationalisation which results in the outflow of government funds without any creation of additional assets, it is necessary that greater attention is paid to schemes which will generate employment, widen entrepreneurial base, promote small scale industries, etc. (Para 13.1).

LARGE HOUSES

AND

The National Executive of the Janata Party which met on 18th January 1979 reiterated that "the Party's commitment to decentralisation of economic power and healthy industrial development makes it imperative that control and holdings of large industrial houses is effectively reduced", and authorised the President to appoint a Committee "to study the position in depth and make necessary recommendations in this regard". The terms of reference of the Committee are not precise. But, it is clear, the way the Resolution is worded, that decentralisation of economic power has to be achieved in a manner that would not adversely affect healthy industrial development.

8

WHAT IS ECONOMIC POWER?

1.1 Economic power has been generally misunderstood. It may imply two things:

- Power to influence the market; and
- Power to influence the political machinery.

1.2 It is certainly important that the market system is open to competition and one single undertaking, or undertakings belonging to a 'house', do not control a large share of the market to be able to influence prices and distribution. Industrial development in our country has fortunately been broad-based and in almost all industries the market share controlled by any single enterprise or group is relatively small.

1.3 There are circumstances in which the number of units manufacturing any product cannot be very large. For instance, when new items are introduced, there is bound to be only one or two units in the industry. Similarly, in industries where large investment is involved and the market for the product is relatively small, the number of producers will not be very large.

1.4 The Minister of Industry in his Note entitled 'Requirement of Additional Investment in the Industrial Sector' submitted to the Executive Committee of the Janata Party at its meeting held on 15-17th January 1979, pointed out that a large gap between demand and production will be created by 1982-83 in industries like fertilisers, aluminium, cement, commercial vehicles, railway wagons, plastics and intermediates, synthetic fibres, etc. In respect of many of these items the gap between production and demand is at present made good from imports, in some cases, even at prices higher than the domestic cost. These shortages have to be made good by the private sector. It would be incorrect to think that the country should continue to depend on imports simply because the additional production, if undertaken by the private sector, would result in an increase in the size of large houses.

1.5 Economic power, at any level, can be detrimental only if it is abused. This would mean interrupting the free competitive market forces with a view to regulating prices and earn extra profits. In other words, the abuse of economic power is conerminus with restrictive or monopolistic practices. There is enough effective legislation on the subject. The Monopolies Commission acts as a watch dog.

POWER OF PATRONAGE

2.1 Two other abuses of economic power the possible

(i) the generation of unaccounted money

(ii) power of appointing relatives etc. in lucrative positions.

2.2 Enterprises can be in a position to generate unaccounted money which is apt to be utilised for exercising political influence. Generation of unaccounted money is not due to the size of the undertaking as much to the system in which enterprises - large or small, public or private - function. When the system is regulated too rigidly through a variety of controls there are bound to be opportunities for generation of unaccounted money. What needs to be considered is how the system could be made more open and production is continuously enlarged so that the very scope for generation of unaccounted money is eliminated.

2.3 The existence of unaccounted money is a reflection on the set up. It would be too naive to assume that the generation and circulation of unaccounted money is limited pnly to private sector. It has a much wider scope and possibly the spread in other spheres may be much more.

2.4 It is also true that the management is in a position to appoint persons in important positions not entirely on considerations of merit. To some extent this is checked by Government. For instances the following appointments need Government approval:

(i) A firm to office to profit for a term of ten years.

(ii) Cost auditors,

(iii) Managing Director,

(iv) Sole selling agent having substantial interest in the Company.

(v) Sole selling agent by Company with paid up capital of Rs. 50 lakhs or more.

IS THERE CONCENTRATION?

3.1 In 1976, there were 76 large houses as defined under section 26 of MRTP Act, apart from the 82 single large undertakings each with assets of over Rs. 20 crores. There share of these undertakings in total industry in our country is substantially less in comparison with that in USA or UK, even though their industrial history is much longer.

TABLE - I

	Share of top 20 large houses/companies in industrial assets
Indian	14.0
USA@	32.3
UK*	45.0

Note: With respect to India the share pertains to 20 large houses.

@ Relates to sales

* Relates to the share of largest 100 in net output.

3.2 A significant trend in India is that the share of large houses in industrial assets has been declining. Between 1972 and 1976 their share dropped from 25 per cent to 22.7 per cent.

TABLE - II*

(Per cent)

	Share of large houses in industrial assets		
	1972	1976	1982
Top 2 large houses	6.2	5.5	4.8
Top 20 l arge houses	15.4	14.0	12.3
Top 50 large houses	22.3	20.1	17.7
All large houses (excluding single large undertakings)	25.0	22.8	20.0

* See Appendix - I-A

3.3 The degree of concentration has been perceptibly diluted in the past five years and taking into consideration the fact that public sector enterprises are growing at about twice as fast as large houses, development over the next five years would reduce the share of large houses even further. By 1982 the share of the 76 large houses in total industrial assets will come down from 22.8 per cent to 20 per cent.**

** See Appendix II and also table II.

3.4 Concentration of economic power has been measured in terms of total assets. It does not take into account the liabilities that the enterprise has to incur. While the measurement in terms of financial assets is wrong in itself, the clubbing together of loans and owned funds distorts the picture even further. If at all assets are taken as the norm, they should be taken net rather than gross. The difference is significant. In the case of 1950 companies (RBI Sample), the owned assets of the companies were only 35 per cent of the total assets. If net assets are considered, the number of large houses will be reduced to 43 on the basis of Rs. 20 crores norm.

GROWTH OF LARGE HOUSES

4.1 The total assets of the large houses and single large undertakings registered under Section26 of the MRTP Act increased from Rs. 4947 crores in 1972 to Rs. 8041 crores in 1976 or at a compound rate of 13 per cent per year. The growth of assets has created an impression that large houses are growing at a very high rate. This is not quite so because of a variety of factors.

4.2 Firstly, the addition to assets include replacements as also new capacity. If a boiler costing Rs. 50,000 is replaced by another boiler exactly of the same size but costing, say Rs. 10 lakhs, the productive capacity of the unit remains absolutely the same but there would be a net increase in assets to the extent of Rs. 9,50,000. This increase is fictitious because it does not result in any enhancement of productive capacity. It would be difficult to estimate the extent of such fictitious increase because of the inflationary rise

in the cost of assets involved in replacement. Also, new investment will be at a substantially higher cost, capacity for capacity. For instance, if a cement unit increases productive capacity by 10 per cent its its assets will show an increase of 30 per cent because in the last decade the cost of cement project has nearly trebled. Consequently, growth in terms of finance would be very much higher than growth in terms of productive capacity.

4.3 The impact of inflation on assets is total in the case of working capital. Inventories are completely replaced every three months, on an average. In the case of textile industry, for example, the cotton that is held or the finished goods that are in stock will be replaced almost every two months or so. Therefore, the whole of the inventories in 1972 will be at 1972 prices and those in 1976 will be at 1976 prices. This would mean that if the unit does not expand operations at all and the price of raw materials has gone up by 100 per cent there would be a 40 per cent increase in net assets if inventories constitute two-fifths of the assets of the company. A significant part of the increase in assets of the large houses will be of such fictitious nature.

4.4 In short, the growth of large houses, as revealed by the financial assets, is totally different from the growth in terms of physical assets. Indeed, the situation is that the growth of the large sector has not been sufficient, and this is precisely why thereis at present shortage of a number of vital commodities like steel, cement, paper, caustic soda, soda ash, etc. which can be produced only in the large sector.

OPTIMUM SIZE OF UNDERTAKINGS

5.1 The concept of concentration of economic power, as it is, is purely a statistical abstraction. However, there are single large undertakings or companies in the group or house the size of which is relevant. When the size is small the unit is not in a position to avail of the economies of scale and is not in a position to offer goods to the market at the least price. On the contrary, if the size is too large so as to cross the optimum point the cost will again be excessive. What the policy should seek to sponsor is the optimum size of undertakings.

5.2 The optimum size of a unit of enterprise depends upon a variety of situations more particularly technological. With the advancement in science the otpmum size of the unit has been continuously increasing. For instance, in the case of cement the optimum size which was about two lakh tonnes some years back has now become something around 10 lakh tonnes a year. Unless the unit is in a position to grow to the optimum size it is not able to utilise the resources effectively or compete in international markets.

5.3 The size of a unit cannot be decided on theoretical considerations alone. To judge whether our industry has achieved the optimum size or not, it will be desirable to compare units with similar under-

takings in other countries. The following comparison is significant:

TABLE - III*

Item	Indian Company Net sales (000 $$	Foreign Company Net sales (000 $)	Indian companies as % of Foreign companies
Steel	342,826	9,609,900	3.57
Automobiles	354,830	54,961,300	0.65
Aluminium	134,629	3,028,401	4.45
Paper	66,349	2,580,841	2.57
Tyres & Tubes	64,533	2,110,051	3.06
Chemicals	77,419	10,041,671	0.77

* See Appendix III

5.4 The comparison of Indian companies with foreign companies would show that our largest companies, in any product, are very small. TISCO, for instance, is only 3.5 per cent as big as US steel or 5 per cent as big as Nippon Steel of Japan. There is a slong way for the Indian enterprises to go before they can assume optimum size. This conclusion is true of all other units as well. Such comparison only brings out that any restrictions on growth would deprive the society of the advantages of large scale production in areas in which they are required to operate.

WHY GROWTH IN NECESSARY?

6.1 The growth of houses is governed by, firstly, the generation of funds which have to be utilised productively and secondly the changes in the market, technology and such other factors which call for expansion.

6.2 The setting up an enterprise requires that 20 per cent of the project cost is financed by the entrepreneur. In the conditions of today, individuals cannot save enough because of the high rate of taxation. The nucleus capital has necessarily to come from the companies. The surplus fund with a company in a group is a source of promoter's contribution for setting up another company. It is for this reason that growth necessarily implies inter-linking of companies, and under the present definition of concentration of economic power, the inter-linked enterprises come to belong to a large house.

6.3 The second aspect is that an enterprise has to grow when there is improvement in technology, product innovation, change in consumer tastes, and so on. This is a natural reflection of the dynamism of industrialisation.

6.4 These factors have, no doubt, been recognised and the Industry Minister has granted licence to large houses for a number of items. In cement alone licences to the extent of nearly Rs. 700 crores have been granted. This became desirable because large industries are outside the range of small and medium entrepreneurs. In the interest of rapid increase in production of vital commodities, it is imperative that the skills of entrepreneurs who are able to put up large enterprises are made use of.

6.5 Besides, large enterprises have a vital role in the export of goods and import of requisite technology. In doing so, Indian parties will have to deal with their counterparts abroad. If the Indian parties are too small, financially and commercially, they will not be able to enter into deals on equal basis. Taking this in view, it is important that our enterprises reach a reasonable dimension which is also in keeping with other economic considerations.

PRODUCTS MANUFACTURED BY LARGE HOUSES

7.1 The sphere of operation of large houses has been very precisely defined. In terms of the present licensing requirements large houses are allowed to produce items in the 'core' sector though in special circumstances they can produce other items as well, e.g., items for export.

7.2 The demarcation of areas for large houses was done precisely for the reason that large houses, with superior talents and skills, do not compete with small and medium entrepreneurs. It is important that the superior ability of the large houses is utilised to promote sophisticated and large industries which are beyond the competence of small of medium entrepreneurs. This policy has worked well and has brought into being a sector of industries which has helped the country to reduce the import bill through impo rt substitution and increase exports of manufactured goods particularly in the field of engineering.

7.3 The areas which should be made open to large houses cannot obviously be static. With product innovation and technology improvements new industries have to be established while those which have been sufficiently developed require to be left to the medium and small entrepreneurs. Government have to give particular attention to this aspect and increasingly divert the resources and talents of large houses into sophisticated industries requiring large capital and superior managerial skills.

7.4 A point which needs to be emphasized is that the growth of large houses has not been at the expense of the small and medium industries. As such, if large houses are stopped from growing or are prevented from diversifying, it would be a net loss of production, employment, exports and tax revenue without any compensatory benefit.

VERTICAL AND HORIZONTAL EXPANSION

8.1 Growth can be brought about in three ways:

- By producing items down-stream or up-stream
- By expanding capacity in the same product
- By diversifying into unrelated commodities.

8.2 If growth follows the first kind of pattern a large house or a large unit may have to go into lines which are reserved for small industries or the public sector. For instance, a paper industry may have to go into printing, textile industry into garments, and so on. This growth pattern may not be feasible in all circumstances.

8.3 Obviously, expansion of the capacity in the same line of manufacture will automatically lead to increase in the market share. A textile unit expanding capacity to produce more textiles will gradually come to acquire dominance in the market and be able to take advantage of monopolistic practices. As such, this growth pattern also, though necessary and desirable within limits, cannot be a guide for all future developments.

8.4 It is for reasons mentioned above that most of the units and houses have diversified into almost unrelated products. A company manufacturing textiles diversifies into vanaspati and fertilisers and so on. HMT, for instance, has gone into such diverse lines as machine tools, watches, electric bulbs etc. which brings out clearly the need and logic of diversification. Diversification is also

commercially necessary because it helps spread risk, minimise the rigour of business cycles and promotes productive use of self-generated funds according to the licensing priorities.

WHY RECOURSE TO FINANCIAL INSTITUTIONS?

9.1 The large sector has come to utilise the services of the financial institutions for a sizeable portion of the requirements of funds. This is so for the simple reason that almost all sources of funds to industry have been nationalised and the high rate of corporate taxation does not permit enough generation of internal resources. The LIC, GIC, Banks, Provident Funds, Gratuity Funds, Trust Funds, are subject to governmental regulations which debar investments being made in the shares of the corporate sector or permit only such a small amount to be so invested that the corporate sector is not able to get sufficient funds from these sources.

9.2 It has been mentioned that the financial institutions hold a substantial part of the corporate securities. This is true. It must, however, be realised thst more than 3/4ths of theseholdings are with three institutions namely - the LIC, GIC and UNTI. The investment by these institutions is made mainly with the object of getting a higherreturn and isnot the option of the company whose shares are held by the institutions.

9.3 It is in the interest of smooth corporate growth that the institutions do not hold on to the securities when there is so much demand for them from the general public. What these institutions need to do is to sell shares of companies which have been paying good dividends and the market price of which is fairly high. They

should invest in the shares of new companies and nurse them for a time until the corporate unit is in a position to pay dividends. This way the institutions will keep their funds rolling.

9.4 In addition, steps must be taken to enable companies to raise their own funds. Primarily this would require the revival of the capital market and larger generation of resources from within the corporate sector itself. Both these can be achieved if the rate of interest is reduced, so as to make equities a more attractive investment, and the rate of corporate taxation is brought down to a reasonable level of enable companies set apart profits for further development.

9.5 The investment companies which have been a subject of some debate have been providing a part of the promoter's contribution which has been the crucial factor in setting up new companies.

THE EXTENT OF PRESENT REGULATION

10.1 Already there are various pieces of legislation designed to regulate the functioning of the corporate sector. The most important of these include-

- Industrial (Development & Regulation) Act;
- The Foreign Exchange Regulation Act;
- The Essential Commodities Act;
- Monopolies & Restrictive Trade Practices Act;
- Company Law;
- Capital Issues Control.

Apart from these regulations, there are institutions which exercise supervision in their capacity as lenders. These include:-

- Term lending institutions; and
- Commercial Banks.

10.2 The working of the companies is also open to the vigilance of the shareholders and the workers. Besides, the audit - internal and external - ensures that the working of companies is according to the requirements of law.

10.3 With all these powers, Government is in a position to exercise effective control on the undertakings and ensure that their operations conform to public interest. The following instruments are particularly relevant-

- Industrial licensing for projects above Rs. 3 crores;
- Limitation of investment by large houses to 'core' sector;
- Limits on loans and investments by a company in another company;
- Takeover of management/undertaking in case of deviation from normal business practices;
- Appointment of Government directors;
- Regulation of managerial remuneration;
- Regulation of the terms of foreign collaboration;
- Restriction on acquisition of shares(Section 108A of Companies Act);
- Import licensing of machinery & raw materials;
- Approval for the appointment of senior managerial and technical personnel and their remuneration
- Structure of capital (debt-equity ratio, preference-equity ratio, promoter's contribution, conversion clause, acceptance of deposits from the public).
- Control on prices (specified industries);
- Control on distribution (specified commodities).

10.4 Under these conditions, development that has taken place or that can take place in future is with Government consent and under Government supervision.

THE THREAT OF NATIONALISATION

11.1 The Economic Policy Statement of the Janata Party observed, "Free market capitalism leads to concentration of economic power in private hands. Ownership of all means of production by the State would lead to concentration of power in the State. Such concentration inhibits freedom in one case and gives rise to disparities in the levels of living in other case, thereby engendering social and political tensions". By implication nationalism of any industry is alien to the general ethos of the Janata Party. The alternative that the Party has itself suggested is the following, to quote: "The tendency towards concentration of economic power arises from the indiscriminate diversification and pre-emption of new fields by leading business groups. It should be the policy of the Janata Government to encourage entrepreneurs in new lines of industrial activity". In spite of this approach suggestions are made from time to time about nationalisation of certain industries like steel, automobbies, aluminium, paper, sugar, investment companies etc., without any rational basis.

11.2 Nationalisation of industries only results in concentration of economic power in the hands of the State, or 'state capitalism'. The dangers involved in such concentration of economic power are great and can lead to very serious political repercussions. In fact, public sector enterprises can be used as instruments for financing

the political activities. This would lead to abuse by unscrupulous political parties which, if they come to power, may be difficult to be dislodged through democratic processes.

11.3 Apart from the ideological issues, there are also other reasons why nationalisation would be against the interest of society:

- Firstly, the experience has so far been that nationalised industries have not proved to be effective instruments of progress. Prices have been high, employment has been low and profits have been negligible or even negative.

- Secondly, the public sector is not in a position to always attract competent managers who have commitment in the organisation and are able to run them successfully.

- Thirdly, the Exchequer will be required to find funds merely to compensate the existing share-holders without in any way adding to the productive capacity of the country. The burden on the Exchequer may be excessively high without resulting in economic growth.

- Fourthly, industrial development requires entrepreneurial and managerial talent which is scarce in our country. It is important therefore that the available talent is usefully utilised in the interest of speedier growth which alone can generate employment and produce goods.

GOVERNMENT IN INDUSTRY

12.1 The total investment in 153 running enterprises of the Central Government now amounts to Rs. 13,000 crores. In 1977-78, these enterprises made a net loss of Rs. 14 crores, apart from receiving financial assistance from the Government. If they had earned a minimum rate of return of 12 per cent, as recommended by the Planning Commission, profits this year would have provided budgetary support to the extent of over Rs. 1500 crores.

12.2 The public sector enterprises have been losing though they are in a particularly privileged position because of the monopoly they enjoy in respect of a variety of items. Industries like Hindustan Teleprinters, Hindustan Telephones, Bharat Heavy Electricals, etc. made profits possibly because they command 100 per cent of the market share. However, coal industry which has been totally nationalised made a loss of Rs. 83.6 crores in 1977-78 and it is estimated that in the current year this loss may go up to Rs..140 crores or so. Even other industries, like Heavy Engineering Corporation, Mining and Allied Machinery Corporation, etc., with market share exceeding 80 per cent, incurred heavy losses (Table IV)

Table IV*

Name of the Company	Gross profits in percent of capital employed.	Share of public sector in total production.
Hindustan Teleprinters	17.3	100
Indian Telephone Industries	16.8	100
Bharat Heavy Electricals	19.5	100
Coal	- 4.81	100
Fertiliser Corporation of India	- 16.59	50
Hindustan Insecticides Ltd.	- 9.75	13
Heavy Engineering Corpn.	- 9.34	80
Mining & Allied	- 84.92	[illegible]1

*See Appendix IV

12.3 In comparison with similar undertakings in the private sector the performance of public sector enterprises appears dismal. For instance, in 1977 IISCO made a loss of 9.2 per cent of the capital employed, HSL made a profit of 5.9 per cent and TISCO a private sector undertaking, 7.61 per cent. The Coromandel Fertilisers made a profit of 22.2 per cent while the Fertiliser Corporation of India and the FACT made losses to the extent of 3.1 and 7.3 per cent respectively.

12.4 A comparison of public and private sector enterprises is shown below:

TABLE IV

(Rate of Profit) %

	1978	1977	1976	1975
1. IISCO (Public)	3.52	- 5.71	- 5.71	1.08
HSL (Public)		5.90	3.58	4.24
TISCO (Private)		7.61	5.59	14.22
2. FCI (Public)	- 5.06	- 3.06	- 2.83	- 0.13
FACT (Public)	- 4.52	- 7.33	- 7.54	- 2.11
Coromandel (Private)		22.16	24.25	20.92
3. IDPL (Public)	5.97	3.68	3.26	2.52
Hindustan Antibiotics (Public)	9.51	- 3.12	-17.21	22.80
Pfizer (Private)		43.21	35.95	31.67
Sandoz (Private)		32.61	22.84	22.06
4. HMT (Public)	4.04	7.75	8.38	9.13
Jyoti (Private)		19.41	17.23	11.21
Mysore Kirloskar (Priate)		14.48	18.76	18.31
5. BHEL (Public)	11.79	13.75	10.91	10.16
Hindustan Brown Boveri (Private)		19.41	17.23	11.21
Kirloskar Electric Siemens (Pvt.)		33.20	36.36	37.62
6. Scooters India (Public)	-14.29	- 10.87	-17.67	- 7.72
Bajaj Auto Ltd. (Pvt.)		53.68	38.47	20.60

Note: Rate of profit = profit before tax to total capital employed (Net worth + short and long term borrowings)

FIRST THINGS FIRST

13.1 There are much broader issues before the country which require to be tackled on an urgent basis. Unemployment is large and the poverty level continues at 40 per cent. To tackle these, it is important that the development of agriculture, industry and services is pushed to the maximum extent ensuring at the same time a fair balance between different activities. In more specific terms the following measures have become imperative.

- The irrigation potential of the country has to be enhanced by providing irrigation facilities to 4 million hectares per year in the next eight years. This would itself create full time productive employment to nearly 20 million workers. Simultaneously, house construction has to be undertaken at the rate of about 4 million units a year. This would generate additional 30 million job opportunities.

- The District Industries Centres have to be made more active so as to provide developmental services to small and cottage industries. The large industries should take active interest in the operations of the DICs and provide technical and managerial advice. To encourage decentralisation of production, inputs bought out by large sector from small industries should not be subject to excise, sales tax, etc. and a weighted deduction should be allowed in the computation of the corporation tax in respect of expenditure on bought out items. Large scale industries should also have close liasison with small sector and provide technology, marketing and quality control facilities.

- To reduce the market share of large houses in any single product, greater competition among large houses themselves needs to be fostered. For this reason industrial licensing for investments in

excess of Rs. 10 crores should be removed. At the same time, licensing should be rigorously implemented in respect of investments by large houses in small undertakings.

- Growth to the extent of at least 5 per cent is necessary in order to keep the industrial unit healthy. While this is partly recognised in the Industrial Licensing Policy, and automatic 5 per cent growth has to be an accepted norm.

- To widen the production base, new enterprepreneurs have to be inducted in industry. The management institutes should be asked to offer special management courses. to new entrepreneurs to help them acquiant themselves with modern management techniques.

- Facilities and incentives have to be given to small and medium entrepreneurs to develop faster. The reduction in the promoters contribution in respect of non-MRTP companies is welcome. It is also desirable that the quity debt ratio is similarly reduced and small and medium entrepreneurs are not inhibited by lack of finance.

APPENDEX - I - A

SHARE OF LARGE HOUSES IN INDUSTRIAL ASSETS

	1972		1976	
	ASSETS (Rs.Crs.)	SHARE (%)	ASSETS (Rs.crs.)	SHARE (%)
Top 2	1232	6.2	1955	5.5
Top 20	3055	15.4	4954	14.0
Top 50	4410	22.3	7104	20.1
All Houses excluding single large under-takings	4947	25.0	8041	22.8

APPENDIX-I-B

SHARE OF TOP COMPANIES IN SALES IN 1977: U.S.A.

(Absolute figures in U.S. $ million)

	Sales of Top 500 Companies (10,86,609)	Sales of Top 1000 Companies (11,82,002)	Total Net Sales (13,31,000)
First 20 top Companies (3,95,943)	36.43%	33.50%	29.75%
First 50 top Companies (5,57,160)	51.28%	47.14%	41.86%
First 100 top Companies (7,16,390)	65.93%	60.61%	53.82%
First 200 top Companies (8,89,709)	81.88%	75.27%	66.85%

Notes: Ranking as done by Fortune, May 8th, 1978 and June 19,1978

Sales of Top 500 and Top 1000 taken from the above issues of Fortune

'Universe' Sales taken from Statistical Abstract of the United States, 1978, U.S. Department of Commerce p.805.

APPENDIX - I-C

SHARE OF 50,100,200 LARGEST CORPORATIONS IN ASSETS & SALES- U.S.A.

(Per cent)

	50 Largest		100 Largest		200 Largest	
	In Assets	In Sales	In Assets	In Sales	In Assets	In Sales
1947	31	22	39	29	46	36
1954	33	28	43	36	51	45
1958	37	30	47	38	57	47
1963	37	30	47	39	57	48
1967	38	30	49	40	60	50
1971	37	31	49	42	60	53

Notes: 1947 Moody's Industrial Manual used for determining ranking by Assets and Sales. From 1954, Fortune's Directory used for Determining ranking by Assets & Sales. Universe data taken from the Quarterly Financial Report for Manufacturing Corporations and from the 1967 Census of Manufactures Vol. I. Summary and subject statistics, United States Department of Commerce, Bureau of the Census, January, 1971.

Source:

Relative Growth of the 'Largest' Manufacturing Corpn. 1947-1971; Subsets from an unknown set Betty Book and Jack Farkas.

A Research Report from Conference Board, 1972, p. 39 and Appendices A & B.

Appendix-I-D

SHARE OF THE LARGEST HUNDRED MANUFACTURING ENTERPRISES IN NET OUTPUT IN BRITAIN, 1909-1970.

Year	Share
1909	16%
1924	21%
1935	24%
1941	21%
1953	26%
1958	33%
1963	38%
1968	42%
1970	45%

(1958, 1963 and 1968 census of production, 1935 Leak and Maizels, Other years are estimates, 1970 provisional)

S.J: Prais: 'A New Look at Growth of Industrial Concentration' Oxford Economic Papers, July, 1974, p. 280.

APPENDIX II

GROWTH OF LARGE HOUSES

(Rs. in crores)

Assets of	1972	1976	% Increase 1976 over 1972	Annual Compound Growth Rate in %
Top 2 Houses	1231	1955	58.8	12.3
Top 20Houses	3055	4954	62.2	12.7
Top 50Houses	4410	7104	61.1	12.6
All excluding Single Large Undertakings	4947	8041	62.5	12.9
Public/ Central Government's running companies*	8415 (1973)	19191 (1977)	128.1	23.0

* Annual Reports on the Working of Industrial and Commercial Undertakings of the Central Government. Inclusive of HSL, Petroleum, Industria and Mfg. enterprises (excluding Trading, other commercial and Miscellaneous Running Concerns, Promotional and Developmental Undertakings, Insurance Corporations.)

APPENDIX-III

INDIAN AND INTERNATIONAL COMPANIES-COMPARATIVE PERFORMANCE

Name of the Industry/ Company	Country	Net Sales (000 $) 1976/177	Index	Total Assets (000$)	Index
STEEL					
TISCO	India	342,826	100	381,743	100
Nippon Steel	Japn	8,910,800	2599	12,799,400	2253
U.S. Steel	U.S.A.	9,609,900	2803	9,814,400	2597
ALUMINIUM					
Hindalco	India	134,629	100	78,768	100
Alcan Aluminium	Canda	3,028,401	2249	3,403,081	4320
Kaiser Aluminium & Chemicals	U.S.A.	2,179,600	1619	2,374,700	3[illegible]15
PAPER					
Orient Paper	India	66,349	100	50,401	100
Reed International	U.K.	2,50,841	3890	2,197,300	4360
Macmillan Bloede	Canda	1,606,466	2421	1,243,360	2467
AUTOS					
TELCO	India	354,830	100	288,876	100
General Motors	U.S.A.	54,961,300	15489	26,658,300	9228
Daimler Benz	Germany	8,633,006	2433	4,478,785	1550
TYRES					
Modi Rubber	India	64,533	100	48,900	100
General Tyres/Rubbers	U.S.A.	2,11[illegible],840	3270	1,587,324	3246
Bridge Stone Tyres	Japan	1,555,840	2411	1,430,310	2925
CHEMICALS					
Npcil	India	77,419	100	71,689	100
Hoechst	Germany	10,041,671	12971	9,871,694	13770
Bayer	Germany	9,220,047	11909	10,104,030	14094

Note: Rs. 8.2 equal to one U.S. Dollar

Source: Fortune 8th May 1978 and 14th August 1978 for overseas companies
Bombay Stock Exchange Directory for Indian Companies.

APPENDIX IV

PERFORMANCE OF PUBLIC SECTOR UNDERTAKINGS 1977-78

Name of the Company	Capital Employed	Gross Proft/ Loss (Rs. crore)	Gross Profit as percent of capital employed	Net Profit/ loss before tax (Rs. cores)	Percentage of Share of Public Sector in production
Hindustan Teleprinters	6.12	1.06	17.3	1.06	100
Indian Telephone Industries	85.67	14.43	16.8	9.60	100
Bharat Heavy Electricals	416.68	81.40	19.5	54.52	100
Coal*	757.14	-36.40	-4.81	-83.59	100
Fertilizer Corporation of India	300.48	-49.86	-16.59	-67.20	50
Hindustan Antibiotics	10.56	- 1.03	- 9.75	- 2.11	13
Heavy Enginering Corporation	193.41	-18.06	- 9.34	-30.26	80
Mining & Allied Machinery Corpn.	24.73	-21.00	-84.92	-24.91	91

Gross profits are estimated as gross income minus manufacturing expenses.

Net profits are arrived at after adjusting gross profits against interest liabilities

*Includes Bharat coking Coal, Central Coal Fields, Coal India, Eastern Coal Fields and Western Coal Fields.